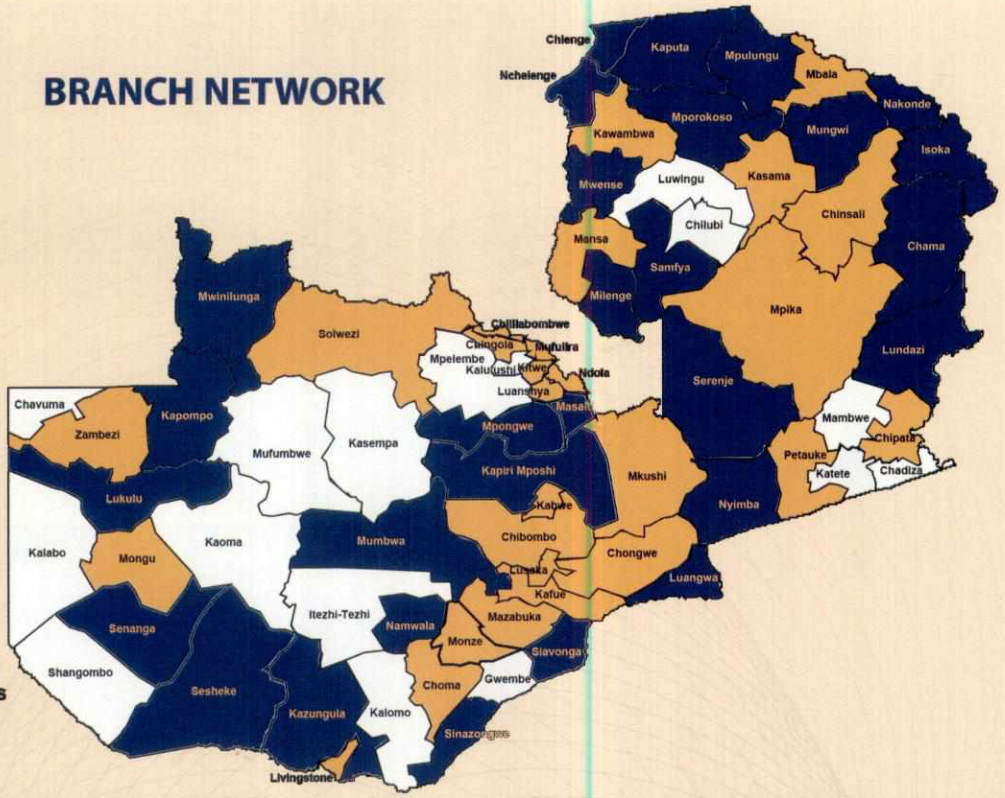
NATIONAL PENSION SCHEME AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2018

Be smart, secure your future

BRANCH NETWORK



NAPSA OFFICES

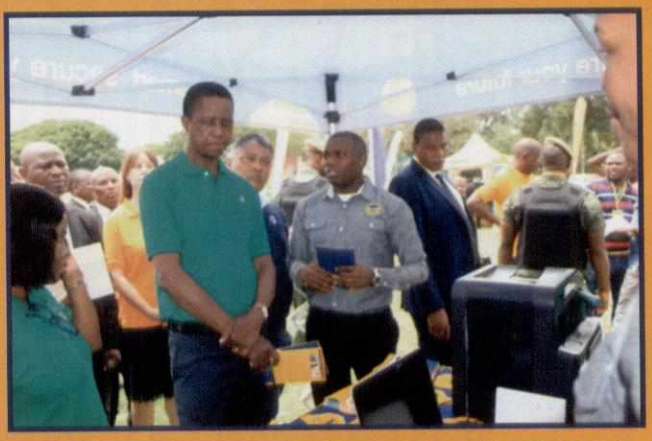
MOBILE MONTHLY OPERATIONS

CHINGOLA Clen Building P O Box 10324 Tel: +260-212-311823 / 312839	**CHIPATA** Provident House P O Box 510260 Tel: +260-216-223427/ 221003	**CHOMA** Provident House P O Box 267 Tel: +260-213-220786	**KAWAMBWA** Provident House P O Box 730718 Tel: +260-212-960053	**KAFUE** P O Box 360041 Tel: +260-211-311555
KABWE Chitanda House P O Box 80433 Tel: +260-215-221379/ 223129	**LUANSHYA** Nollies Building Buntungwa Avenue P O Box 90026 Tel: +260-212-512252	**KITWE** Provident House Matuka Avenue P O Box 223036 Tel: +260-212-224009/ 223361	**KASAMA** Compensation House P O Box 410125 Tel: +260-214-221324	**MAZABUKA** Provident House P O Box 670075 Tel: +260-213-230212/ 230345
LUSAKA Southern Region Lusaka House Tel: +260-211-226874/5	**LIVINGSTONE** Mosi Oa Tunya House P O Box 60573 Tel: +260-213-322145/ 321444	**MONGU** Provident House P O Box 910176 Tel: +260-217-221128/ 221415	**MBALA** Lake Press House P O Box 420289 Tel: +260-214-450457	**MANSA** Provident House P O Box 710190 Tel: +260-212-821236
MUFULIRA P O Box 40099 Tel: +260-212-411078/ 411654	**MONZE** Provident House Tel: +260-213-250533/ 250222	**MKUSHI** Provident House P O Box 840140 Tel: +260-215-362091/ 250222	**ZAMBEZI** P O Box 150151 Tel: +260-218-371105	**NDOLA** Kingstone Building P O Box 72035 Tel: +260-212-610849
MPIKA Provident House P O Box 450092 Tel: +260-214-370370	**SOLWEZI** Provident House P O Box 110065 Tel: +260-218-821576/ 821342/821180	**PETAUKE** Provident House P O Box 560170 Tel: +260-216-371123/ 371121	**CHISAMBA** Zambeef Building Fringila P O Box 39 Tel: +260-211-843267/ 843271	**CHONGWE** NAPSA Chongwe Plot #322 Chongwe Civic Centre Tel: +260-211-620134
REGIONAL OFFICE - NORTH ZCCM IH Building Katanda Street Nkana East, Kitwe P O Box 22929 Tel: 260-212-251406	**REGIONAL OFFICE SOCIETY HOUSE** P O Box 36342 Tel: +260-211-843268	**CHILILABOMBWE OFFICE** Plot# 1883, Bushbuck walk KCM-Konkola Integrated Business Unit P O Box 210078 Chililabombwe Tel: +260-212-380829	**CHINSALI OFFICE** Plot # 888 Nkalula Street P O Box 630267 Chinsali Tel: +260-214-565149	***CONTACT CENTRE:*** ***Tel: +260 211 395677*** ***SWITCH BOARD:*** ***Tel: +260 211 395000*** ***TOLL FREE: 677*** ***LEVY BUSINESS PARK*** ***Email: info@napsa.co.zm***

2018 NAPSA ACTIVITIES IN PICTURES



His Excellency, President Edgar Chagwa Lungu with Chairperson NAPSA Board of Trustees Ms. Marian Munyinda and NAPSA Director General, Mr. Yollard Kachinda during the official launch of the ECL Business Park in Kitwe on 29th December, 2018.



His Excellency, President Edgar Chagwa Lungu listens to NAPSA Head Corporate Affairs, Mr. Cephas Sinyangwe during the Commemoration of the Anti-Corruption Day on 9th December 2018.



NAPSA Board of Trustees Chairperson, Ms. Marian Munyinda (second from left) receives a dividend cheque from ZCCM-IH.



Hon. Joyce Nonde Simukoko, MP, Minister of Labour and Social Security and Mr. Yollard Kachinda, NAPSA Director General display the framed key for Society Business Park at its official launch.



NAPSA Director General, Mr. Yollard Kachinda receives a dividend cheque from NAPSA wholly-owned subsidiary Levy Business Park Hotel, trading as Stayeasy.



NAPSA Director Investiments Mrs. Dorothy Soko hands over items donated to Chilanga Hospice during the commemoration of the 2018 World AIDS Day.



His Excellency, President Edgar Chagwa Lungu hands over a trophy to NAPSA for winning the overall prize during the 2018 CAMINEX Show in Kitwe .

NATIONAL PENSION SCHEME AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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NATIONAL PENSION SCHEME AUTHORITY

Annual Report and Financial Statements for the Year Ended 31 December 2018

Board of Trustees



Ms. Marian Munyinda
Chairperson



Mr. Mukuli Chikuba
Vice Chairperson



Ms. Freda Tamba
Member



Mrs. Agness Chakonta
Member



Mr. Barnaby B. Mulenga
Member



Mrs. Euphemia Chambula
Member



Mr. Mabvuto Daka
Member



Mr. Chingati Msiska
Member



Mrs. Mutale Chilangwa Chisela
Member



Mrs. Catherine Nampasa Chinunda
Member

Senior Management



Mr. Yollard Kachinda
Director General



Mrs. Chishala Kapaya Tembo
Director Finance



Mrs. Lydia Sameta Chilumba
Authority Secretary



Mr. Mason Mwiinga
Director Contributions & Benefits



Mr. Phillip Muyumbana
Director Projects



Mrs. Betty Chipika Meleki
Director Human Resources
& Administration



Mr. Greg Chola Nsofu
Director Information
Technology



Mr. Ronnie Kamanya
Director Strategy
& Business Performance



Mrs. Dorothy Phiri Soko
Director - Investments

NATIONAL PENSION SCHEME AUTHORITY

BOARD OF TRUSTEES, SENIOR MANAGEMENT AND PROFESSIONAL ADVISORS

BOARD OF TRUSTEES

Mrs. Marian Munyinda (Independent)	-	Chairperson Appointed 1 June 2017
Mr. Mukuli Chikuba (Ministry of Finance) (Government representative)	-	Vice-Chairperson Appointed 1 June 2017
Mr. Barnaby B. Mulenga (Ministry of Labour and Social Security) (Government representative)	-	Member Appointed 1 June 2017
Mr. Chingati Msiska (Workers' representative)	-	Member Appointed 1 June 2017
Mrs. Agnes Chakonta (Pension Funds representative)	-	Member Appointed 1 June 2017
Mrs. Mutale Chilangwa Chisela (Bankers Association representative)	-	Member Appointed 1 June 2017
Mr. Mabvuto Daka (Employers' representative)	-	Member Appointed 1 June 2017
Ms. Freda Tamba (Bank of Zambia representative)	-	Member Appointed 1 June 2017
Mrs. Catherine Nampasa Chinunda (Workers' representative)	-	Member Appointed 1 June 2017
Mrs. Euphemia Chambula (Employers' representative)	-	Member Appointed 1 June 2017

NATIONAL PENSION SCHEME AUTHORITY

BOARD OF TRUSTEES, SENIOR MANAGEMENT AND PROFESSIONAL ADVISORS

EXECUTIVE MANAGEMENT

Mr. Yollard Kachinda	-	Director General
Mr. Mason Mwiinga	-	Director Contributions & Benefits
Mrs. Lydia S. Chilumba	-	Authority Secretary
Mrs. Dorothy Soko	-	Director Investments
Mrs. Chishala K. Tembo	-	Director Finance
Mr. Phillip Muyumbana	-	Director Projects
Dr. Greg Chola Nsofu	-	Director Information Technology
Mrs. Betty C. Meleki	-	Director Human Resource & Administration
Mr. Ronnie Kamanya	-	Director Strategy & Business Planning

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

PROFESSIONAL ADVISORS

LEGAL ADVISORS:	Legal Counsel National Pension Scheme Authority Levy Business Park P.O Box 51275 Lusaka
AUDITORS:	Grant Thornton 5th Floor, Mukuba Pension House Dedan Kimathi Road P.O Box 30885 Lusaka
ACTUARIES:	Government Actuary's Department Finlaison House 15 – 17 Furnival Street London EC4A 1AB
BANKERS:	Zambia National Commercial Bank Plc Private Bag E119 Lusaka Citibank Zambia Limited P.O Box 30037 Lusaka Barclays Bank Zambia Plc Private Bag E308 Lusaka Standard Chartered Bank Zambia Plc P.O. Box 32238 Lusaka Stanbic Bank Zambia Limited P.O Box 31955 Lusaka
HEAD OFFICE:	Levy Business Park P.O Box 51275 Lusaka

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

The Trustees of the National Pension Scheme Authority present their report for the year ended 31 December 2018, together with the audited financial statements.

1.0 Introduction

1.1 The National Pension Scheme Authority ("NAPSA" or "The Authority") was established by the National Pension Scheme Act No. 40 of 1996 ("The Act"), as a body corporate with perpetual succession and a common seal, and became operational on 1 February 2000.

Under The Act, NAPSA administers a defined benefit scheme ("The Scheme") into which is paid all contributions authorised under The Act, and out of which all payments authorised under The Act are met.

In 2015 NAPSA also took over the liabilities of members who contributed to the saving Scheme previously established under the now repealed Zambia National Provident Fund ("ZNPF").

1.2 Trustees

Under the provisions of The Act, the members of the Authority are the Trustees of the Scheme and are appointed by the line Minister in accordance with the provisions of The Act. Subject to these provisions, a Trustee shall hold office for a period of three years from the date of appointment and may be re-appointed for a like period. The Trustees who held office in 2018 have been listed on page 1.

The Act requires the Authority to prudentially manage The Scheme so as to ensure that at all times it is in a state of actuarial soundness, financially sustainable, fair in its benefit distribution and affordable.

In accordance with prudential principles therefore, the Board of Trustees assume overall responsibility for internal controls, risk management, the maintenance of adequate accounting records and the safeguard of the scheme assets, as outlined in the Statement of Responsibility on page 19.

Under the provisions of The Act, the Trustees are required to meet for the transaction of business at least once in every three months at such places and at such times as the Chairperson may determine. In 2018, the Trustees met at least once in each quarter.

2 Strategic Objectives achieved during the year 2018

The following were the Strategic objectives achieved by the Authority in 2018:

i) Completion and launch of two modern mixed use development facilities namely; Society Business Park in Lusaka and Edgar Chagwa Lungu Business Park in Kitwe.

ii) Partnered with the mobile network MTN to include MTN mobile money (MOMO) as an additional payment option for the remittance of employee contributions. The other enhancement is the introduction of credit or debit card payment option on eNAPSA.

iii) Signed Memorandum of Understanding with seven informal sector associations to support efforts aimed at extending social security coverage to the informal sector.

iv) The Authority set out to increase membership to 150,000 in 2018 for the formal and informal sectors and exceeded this target, achieving an actual number of 163,057 new members.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

2 **Strategic Objectives achieved during the year 2018** (continued)

v) The Authority ensured that there was financial sustainability of the fund by growing it by 13% from K22 billion at the beginning of the year to K25 billion at the end of the year; earning a return on investments of 17% against a target of 16%; achieving member contributions target of K3.5 billion; while operating within the allowed expenditure limit of 14.7% of the contributions collected and K30 million of capital expenditure.

vi) Receipt of dividends of approximately K53 million from seventeen (17) listed companies and the subsidiary Levy Business Park Hotels Limited trading as Stay Easy Hotel in which the Authority has invested. This is based on the 2017 performance of these equity investments.

vii) The Authority conducted cultural transformation sessions (iCARE- THE NAPSA WAY), created a conducive working environment for all employees and other stakeholders and ensured its staff were motivated to support the Corporate Objectives.

viii) The financial year 2018 marked the beginning of the 2018 - 2021 Strategic period which saw the Authority revise its Vision, Mission, Core values and Objectives under the framework of the Balanced Scorecard. The Strategic Plan was created in line with the Seventh National Development Plan.

3 Operational Highlights for the year 2018

3.1 Role of the Authority in the national economy

The Authority continued to play a significant role in the economy by providing a source of Investment funds for the financial and capital markets. This support contributed to the development of markets by promoting depth and providing liquidity in the market. The Authority also invested in other asset classes such as Infrastructure and real estate in line with the Seventh National Development Plan.

Through payments of pension benefits to its members, the Authority contributed to increasing consumer spending power, an important driving force in the economy. Accordingly, the Authority paid out Eight Hundred and Sixty Million Kwacha (K860 million) to its members in various pension benefits.

3.1.1 Overall Authority Performance

As at 31 December 2018, the Authority registered a 13% increase in the Net Assets Available for Benefits to K25.2 billion from K22.4 billion recorded as at 31 December 2017. The positive performance was attributable to:

i) favourable net investment performance;
ii) favourable performance on member service operations as the Scheme is relatively young;
iii) control on administrative expenditure, which was 16% below budget;

The overall performance is highlighted in the graph below:

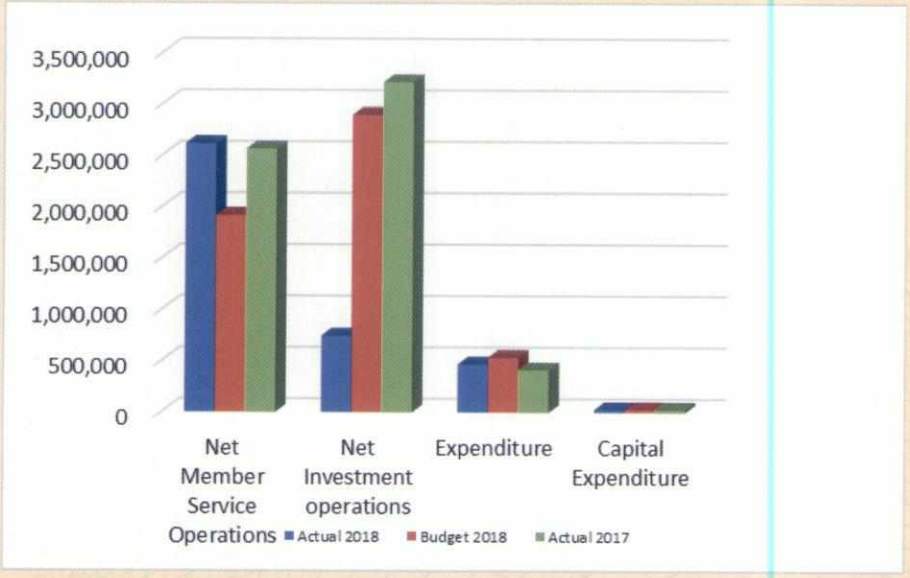
NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

3 Operational Highlights for the year 2018 (continued)

3.1.1 Overall Authority Performance (continued)

Graph 1: Overall Performance (K'000)



3.2 Member Service operations

3.2.1 The Scheme recorded an increase in contribution collections of 6% in 2018 to K3.5 billion, compared to K3.3 billion achieved in 2017. The increase in contributions from the prior year figure was attributable to a number of factors such as; the growth in the national economy, increase in the National Average Earning (NAE) and the increased contribution ceiling. The contribution collections were slightly below the target of K3.6 billion. The contribution rate remained at 10% of the employee's gross wages up to a monthly ceiling of K1,990; shared equally at 5% between the employer and employee.

3.2.2 The Authority recorded an increase of 22% (K152 million) in benefit payments to K860 million from K707 million in 2017. The increase is a reflection of a number of factors such as; increase in the number of qualifying members, upward adjustment in the minimum monthly pension and funeral grant as well as increased number of Provident Fund members claiming their benefits.

3.2.3 The ratio of benefit payouts to contributions was 25% (2017: 22%). The ratio denotes that the Authority continues to pay out pension benefits to its members from contributions collections.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

3 Operational Highlights for the year 2018 (continued)

3.3 Membership, Contributions and Benefits Trend

3.3.1 Table 1 and 2 below depict a five-year trend in contributions collected and benefits paid respectively;

Table 1:

Membership and Contributions trend	2018	2017	2016	2015	2014
Number of active employers	22,199	21,068	18,288	16,473	15,552
Number of active members	810,408	768,591	727,833	701,374	672,320
Average collection per month (K 'millions)	299	270	243	214	191

Table 2:

Benefits trend	2018	2017	2016	2015	2014
Funeral grant per claim (K)	9,950	8,946	8,440	7,960	7,921
Minimum pension per member (K)	995	894	844	796	792
Highest pension per member (K)	5,050	3,994	3,644	3,437	3,419
Average monthly pension per member (K)	1,419	1,264	1,145	1,087	1038
Highest lump sum per claim (K)	346,380	312,460	282,095	246,636	222,436
Number of pensioners	15,471	14,654	14,497	12,982	11,723
ZNPF payments(K' millions)	312	198	166	122	129

Table 2 above illustrates the steady increase in the Scheme membership and pensioners. The number of pensioners is growing at an average rate of 1,400 pensioners per annum. During the year, 1,102 additional pensioners were included on the payroll while 1,431 were excluded mainly due to their omission to renew the life certificates and terminations due to death. The changes in the number of pensioners are summarised below:

i. The number of new entrants in 2018 was 1,102;

ii. 1,431 pensioners were permanently dropped from pension payroll due to:

   a. Deaths: 119 pensioners died during the year;

   b. Non-renewal of life certificates: 882 pensioners did not renew their life certificates; and

   c. 430 children attained age of 25

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

3 Operational Highlights for the year 2018 (continued)

3.4 Investments

3.4.1 In the year under review, the Scheme posted an overall net positive performance of K707 million on investment operations compared to K3.2 billion in 2017. Despite the Authority achieving a net interest income of K3.7 billion in 2018, an increase of 11% from K3.4 billion recorded in 2017, significant losses of about K 2.8 billion were recorded largely on the revaluation of Government securities, listed equity interests and expected credit losses on loan receivables which resulted in the modest performance of K707 million. The factors which impacted performance of investments were;

i) Fresh funds of K2.2 billion from member contributions;
ii) Increased investments in higher yielding Government securities at an average interest rate of 19.5%;
iii) Increased interest income from loans under the Infrastructure asset class;
iv) Net revaluation loss on listed equity securities amounting to K266 million;
v) Net revaluation loss on Government securities amounting to K1.9 billion compared to the revaluation surplus of K55 million recorded in 2017; and
vi) Provision for loss arising from the expected credit losses on loan receivables amounting to K532 million.

3.4.2 The Authority complied with the approved limits in the investment guidelines under Statutory Instrument Number 19 of 2017. Table 3 below illustrates the investment portfolio held at the end of 2018.

Table 3 -Net Investments

Net Investments	2018 Net Investments	2018 % of total portfolio	2017 Net Investments	2017 % of total portfolio
	K' Million		K Millions	
Government securities	12,609,075	51	10,859,553	50
Fixed Term Deposits	4,972,397	20	4,198,140	19
Medium Term Notes	46,688	0.2	77,518	0.4
Shares in listed corporations	1,312,402	5	1,579,363	7
Infrastructure & Real estate	2,911,512	11.8	2,526,255	11.6
Housing inventory	218,924	1	305,979	1
Investment properties	2,764,727	11	2,314,785	11
Total	24,835,725	100	21,861,593	100

3.4.3 **Table 4** below highlights the Authority's major projects at various stages of completion and the expenditure thereon by 31 December 2018. The projects are displayed by category.

Table 4: (Kwacha Thousand)

Projects in progress	Type	2018	2017
Redevelopment of Society House	Hotel, retail, parkade and offices	**992,955**	921,447
ECL Business Park	Hotel, Shopping mall, Convention Centre and offices	**1,213,450**	824,183
New Chinsali offices	Offices	**11,528**	1,384
New Records Centre	Records Centre	**49,080**	27,352
River Park	Housing units, retail and offices	**108,006**	100,169
Total		**2,375,019**	1,874,535

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

3 Operational Highlights for the year 2018 (continued)

3.5 Provident Fund

3.5.1 Since inception of the Pension Scheme, the Provident Fund became a depleting fund with no inflow of fresh funds from contributions. As a consequence, the Fund in recent years experienced liquidity challenges. This necessitated intervention by the Pension Scheme to assist the Fund meet its obligations such as benefit payments to members who contributed to the now closed ZNPF.

3.5.2 The Board of Trustees consequently resolved that the assets and liabilities of the Provident Fund be taken over by the Pension Scheme through merging of the two books of accounts. The audited positions of the Pension Scheme and the Provident Fund were thus merged as at 1 January 2017.

4.0 Staff Matters

4.1 The approved staff establishment as at 31 December, 2018 was as shown in Table 5 below.

Table 5 (Staff establishment)

	2018	2017
Approved staff establishment	610	581
Actual numbers		
Permanent and pensionable	541	545
Directors	8	9
Contract staff	27	24
Total	576	578

4.2 The Authority prides itself in having a team of employees that support its strategic intent by way of their diverse skills and competencies. In ensuring that the Authority maintains a motivated and driven workforce, a number of measures and different activities were put in place during the year: -

4.2.1 Training and Development

Training and development of staff is a key component of the Authority's retention strategy. Through training and development programmes, the Authority has over the years acquired unique skill sets that set it apart from other pension institutions.

During the year, various local and international training interventions for members of staff were undertaken covering courses in Social Security, Fund Management, Enterprise Risk Management, Construction Project Evaluation, Leadership, Customer service, Financial modelling, etc.

4.2.2 Health care and wellness programmes

The Authority promoted a number of wellness initiatives such as group fitness exercises, in-house screening services for members of staff in various stations as well as medical insurance cover for all staff. These initiatives were aimed at promoting a healthy and physically fit workforce. A healthy workforce promotes increased productivity in any institution.

4.2.3 Employee Engagement

Regular engagement with staff is at the core of the Authority's activities. Given that the Authority has two categories of employees (represented and non-represented), it is imperative that there is free flow of information as well as regular communication within the institution. During the year, the tone for the new strategic plan for 2018 - 2021 was set. This included the introduction of the new set of values iCARE (Integrity, Collaboration, Accountability, Respect and Excellence). A massive sensitization campaign was undertaken in the year to embed these values and would continue in the following year.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

4.0 **Staff Matters (continued)**

4.2.4 **Performance Management**

The Authority is working towards being a high performing public institution. This entails that employees are rewarded based on their performance. To this effect, the Balanced Scorecard framework was used as a performance management tool during the year and would continue in the following year.

5.0 **Statement on Corporate Governance**

5.1 The Authority subscribes to the tenets of good corporate governance. NAPSA's mandate, structure and operations are primarily premised on the National Pension Scheme Act, Number 40 of 1996 and its subsequent amendments thereof; the Investment Guidelines and other applicable laws. NAPSA has in place various policies, structures and procedures to ensure that the decision making process, governance and administration of the institution are in accordance with applicable laws and good corporate governance practices. As a Social Security Institution, NAPSA further subscribes to International Social Security Association (ISSA) principles and practical guidelines on Good Governance Guidelines. The ISSA Good Governance Guidelines encourages social security institutions to ensure that the exercise of vested authority is accountable, transparent, predictable, participative and dynamic.

5.2 The Authority is governed by a Board of Trustees, comprising ten (10) members, who are appointed by the Minister of Labour and Social Security. The Board of Trustees is tripartite in nature as the majority of trustees are drawn from the Government, Employers and Employees' Associations. Other trustees are drawn from the industry and professional bodies prescribed by law. The current Board of Trustees was appointed by the Minister of Labour and Social Security on 1 June 2017. The current Board is comprised of six (6) women and four (4) men. The Board provides oversight over the operations of the Authority in line with its statutory mandate and the Board Charter which is reviewed regularly. The Minister also appoints the Director General who is responsible for the day to day management of the Scheme. The Office of the Authority Secretary acts as a central point of advice to the Trustees on governance issues and processes relating to the Authority's operations. All Trustees and Committee Members have access to the Authority Secretary.

5.3 The Board meets regularly to review the performance of the Institution and provide guidance to Management. Every year, the Board approves a Schedule of Board Meetings to assist members plan for attendance. However, ad hoc meetings are arranged to carter for urgent and time bound business. During the year under review a total of eighteen (18) meetings were held of which fourteen (14) were scheduled and the remainder of five (5) were ad hoc (special) meetings. The Board's key focus areas are summarised as follows:

i. the Authority's strategic direction;
ii. corporate governance;
iii. financial arrangements;
iv. key investment strategies and performance;
v. Scheme performance; and
vi. guidance to the executive team.

5.4 The proceedings of the meetings were duly recorded, and minutes were signed.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

6.0 Committees

The Board has powers to delegate its authority to committees and management to assist it discharge its mandate. There are currently four (4) standing committees, namely, the Audit, Risk and Compliance Committee, Finance & Investments Committee, Technical Committee and the Staff Affairs Committee. The Board has powers to appoint external subject matter experts to ensure the right balance of skills and knowledge is brought to bear into its decision making processes for the benefit of the institution. The Committees are chaired by a Trustee meeting requisite skill and experience in line with the mandate of the Committee.

6.1 Audit, Risk and Compliance Committee

The Audit Committee, as recognised in Section 19 of the Public Financial Management Act of 2018, oversees financial reporting, risk management and compliance for the Authority.

6.1.1 The Audit Committee is comprised of the following Members:

i. Mrs. Mutale Chilangwa Chisela (Chairperson)
ii. Mr. Mukuli Chikuba
iii. Mr. Julu Godfrey Simuule
iv. Mr. James Banda
v. Ms. Rosemary Mukuka

6.1.2 During the year, the Committee met seven (7) times to consider audit, risk and compliance matters and make appropriate recommendations to the Authority.

6.2 Finance and Investments Committee

The Finance & Investments Committee oversees investment performance and management to ensure prudent management of assets and maximisation of returns.

6.2.1 The Finance & Investments Committee is comprised of the following Members:

i. Ms. Freda Tamba (Chairperson)
ii. Mr. Barnaby Bwalya Mulenga
iii. Mr. Frederick Shabani Mtamira
iv. Mrs. Christabel Banda
v. Mrs. Jane Musonda Mulenga

6.2.2 The Committee met sixteen (16) times in 2018 to review the Authority's financial performance, consider investment proposals, make investment decisions, adopt policies and propose appropriate recommendations to the Authority.

6.3 Technical Committee

The Technical Committee's main mandate is to assist the Board of Trustees discharge its statutory obligations in relation to monitoring pension administration, strategic planning, actuarial status, reforms and regulatory compliance.

6.3.1 The Technical Committee is comprised of the following Members:

i. Mrs. Agnes Nyondo Chakonta (Chairperson)
ii. Mrs. Euphemia Mubanga Chambula
iii. Mrs. Catherine Nampasa Chinunda
iv. Mr. Musonda Cheta
v. Dr. Stephen M. Kambani

6.0 **Committees (continued)**

6.3 **Technical Committee (continued)**

6.3.1 vi. Mr. Anthony Dumingu

6.3.2 The Committee met four (4) times in 2018 to consider matters relating to member service operations, actuarial reports, pension reforms and make appropriate recommendations to the Authority.

6.4 **Staff Affairs Committee**

The Staff Affairs Committee's key function is to oversee staff wellbeing and performance in order to ensure optimal overall organisation performance.

6.4.1 The Staff Affairs Committee is comprised of the following Members:

i. Mr. Mabvuto Daka (Chairperson)
ii. Mr. Chingati Msiska
iii. Mrs. Musonda Kunkuta
iv. Mr. Jumali Nkhoma
v. Ms. Mubanga Musakanya

6.4.2 The Committee met eight (8) times in 2018 to consider matters pertaining to staff and make appropriate recommendations to the Authority.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES

6.0 **Committees (continued)**

6.5 **Attendance of meetings**

6.5.1 Attendance of meetings by Trustees and Committee members is shown in the Table below:

	Board meetings		Committee meetings		Note
	No. of Meetings held	No. of Meetings attended	No. of Meetings held	No. of Meetings attended	
Board Chairperson					
Mrs. Marian Munyinda	18	18			
Finance and Investments Committee					
Ms. Freda Tamba	18	10	16	15	
Mr. Barnaby Bwalya Mulenga	18	14	16	16	(i)
Mr. Frederick Shabani Mtamira*	*		16	13	
Mrs. Christabel Michel Banda*	*		16	15	
Ms. Jane Musonda Mulenga*	*		16	13	(ii)
Audit Risk & Compliance Committee					
Mrs. Mutale Chilangwa Chisela	18	17	7	6	
Mr. Mukuli Chikuba	18	13	7	6	(iii)
Mr. Julu Godfrey Simuule*	*		7	6	
Mr. James Banda*	*		7	7	
Ms. Rosemary Mukuka*	*		7	6	
Staff Affairs Committee					
Mr. Mabvuto Daka	18	17	8	8	(iv)
Mr. Chingati Msiska	18	16	8	8	
Mrs. Musonda Kunkuta*	*		8	7	
Mrs. Mubanga Musakanya*	*		8	7	
Mr. Jumali Nkhoma*	*		8	8	
Technical Committee					
Mrs. Agnes Nyondo Chakonta	18	13	4	4	
Mrs. Euphemia Mubanga Chambula	18	17	4	4	
Mrs. Catherine Nampasa Chinunda	18	15	4	2	
Dr. Stephen M. Kambani*	*		4	4	
Mr. Musonda Cheta*	*		4	3	
Mr. Anthony Dumingu*	*		4	4	
Mrs. Irene Mwezi Kunda*	*		4	3	

Notes
*Not applicable
(i) Seven meetings attended through Skype
(ii) Two meetings attended through Skype
(iii) Eight Board meetings and three Committee meetings attended by Alternate
(iv) One meeting attended via Skype

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

7.0 Board Performance Evaluation

7.1 In order to enhance Board effectiveness, the Authority conducts performance evaluations of the Board, and its Committees. In 2018, a Board Self Performance evaluation exercise was conducted through questionnaires administered electronically. The participants' responses from the evaluation were compiled and presented for discussion at a Board Self Evaluation workshop conducted in April 2018 by an independent external consultant. Overall, the outcome of the evaluation was satisfactory around the Board's role and processes. The Board identified key themes, such as risk management, as areas requiring more concerted effort and focus going forward. Action plans were documented for follow up in 2019.

8.0 Board Induction and Continued Development

8.1 The Authority has in place a comprehensive induction process for new Trustees and Committee members as and when they join the Board. The induction process takes the form of presentations from executives and functional heads, where necessary specific tailored training in pension administration and fund management is conducted.

8.2 Further, the Authority recognises the importance of Trustees' continued understanding of the changing regulatory environment in the pension industry and their role as fiduciaries. Arrangements for training or exposure to new developments are regularly made for Trustees' continued learning and development. In the year under review, the Authority made arrangements for Trustees to attend seminars, training, board development tours with peer institutions in areas such as strategy, corporate governance, risk management and investments in different asset classes.

9.0 Board Remuneration

9.1 Board Trustees and Committee Members are remunerated for services rendered to the Authority through sitting allowances and quarterly retainer fees. The Board is empowered by law to set its remuneration, which is subject to approval by the Minister. Before Trustees' remuneration is reviewed upward, surveys are conducted with peer institutions for comparison. If deemed appropriate, the Staff Affairs Committee makes recommendations for review of Board remuneration.

9.2 The Authority has put in place a Board Remuneration Policy which sets out key considerations for determining Trustees' remuneration. The Trustees remuneration was last reviewed in 2017 when the new Board was constituted.

9.3 Details of the total remuneration and board expenditure is provided on page 57 of the audited financial statements.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

10.0 **Senior management**

10.1 The Board of Trustees has within the provisions of The Act delegated the day-to-day administration of the Scheme to the Director General, who is the Chief Executive Officer of the Authority.

10.2 Senior Management is comprised of the Director General, supported by eight (8) Directors who each head a Directorate.

10.3 There is open communication between the Board of Trustees and Senior Management. The Board and its Committees are supplied with full information prior to each meeting to enable them discharge their responsibilities.

10.4 The Board understands the relationship between itself and the members of The Scheme. It acknowledges that its role is to promote the interest of the members and recognises that it is accountable to the members for the performance of the Pension Scheme.

11.0 **NAPSA's Strategic Direction, Vision, Mission and Culture**

11.1 As part of its vision and commitment to being a high performing public institution, the Authority adopted a new Strategic Plan in 2018. The Strategic Plan builds on the successes scored by the Authority's previous strategic plans and is also aligned to the Seventh National Development Plan (7NDP), with a focus on multi-sectoral integrated approach. The new Strategic Plan will run from 2018 - 2021. It was developed in a highly consultative bottom up approach with an extensive external and internal environmental scan, so that the Authority remained suitably responsive to the needs of its stakeholders, particularly its members.

11.2 The Strategic Plan is tied to the Authority's new vision of being "**A trusted partner that protects people's future and brings pride to the Nation"**.

The Authority's new mission statement and core values guide its operations in its new trajectory as set out below:

Mission Statement: ***"Securing the social and economic well-being of the people of Zambia."***

The Authority's Core Values which are modeled on the **iCARE** principle are:

Integrity – "Do the Right Thing"

Collaboration – "Work Together"

Accountability – "Be Responsible for Your Actions"

Respect – "Listen to Every Voice"

Excellence – "Perform at Your Best"

All Trustees and employees of the Authority are expected to exhibit behaviors that are consistent with the Authority's core values.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

11.0 **NAPSA's Strategic Direction, Vision, Mission and Culture (continued)**

11.3 **Upholding an Ethical Culture**

11.3.1 In support of the Authority's resolve to uphold the highest standards of ethics in its operations, the Authority is one of the Public Institutions that has established an Integrity Committee (IC) in line with the National Anti-Corruption Policy. The main role of the IC is to institutionalize the fight against corruption in the Authority by spearheading corruption prevention activities and entrenching ethical behaviour in the Authority.

11.3.2 During the period under review, the IC assisted the Authority to plan and implement integrity activities under the 2018 Anti-corruption Preventative Action Plan (ACPAP) including the following:

i. increased awareness on the role of the IC and the corruption phenomenon by conducting employee sensitizations in the Authority's twenty-seven (27) stations countrywide.
ii. formulated and rolled out key integrity policies such as the Integrity Policy, Gift and Benefits Policy, Conflict of Interest Policy and the Whistle-blower Policy which would guide the Authority staff, Management and the Board on ethical and integrity matters.
iii. Established a dedicated hotline where staff and external stakeholders could report corruption and wrongdoing. The Hotline (Toll free line **5080**) is managed by an external and independent party, Messrs. Deloitte & Touché'.

11.3.3 The Authority has a Code of Conduct that guides employees and Trustees regarding the standard of behaviour expected to be complied with, including the adherence to the core values, compliance with applicable laws and regulations, conflict of interest, confidentiality, protection of Authority assets from abuse. The Code further guides employees on steps to be taken to foster an environment that would encourage ethical behaviour by those doing business with the Authority and other stakeholders such as suppliers, contractors and agents as well as other stakeholders.

11.3.4 As part of its commitment to safeguarding transparency and managing conflicts and ensuring timely disclosure of interests, the Authority requires all Trustees, executives and all employees to make annual standing declarations on relationships and engagements with potential conflict to their positions in the Authority.

12.0 **Risk Management**

12.1 The Board continues to manage both risks and controls within the Authority. The Board is regularly apprised of material risks and how Management is responding to them. Specific risk-related responsibilities are divided among Board committees and outlined in their respective terms of reference. While the board accepts final responsibility for the risk management and internal control systems of the Authority, it is the delegated responsibility of Management to ensure that robust financial and operational control systems are in place to ensure prudent management of the Authority. To this end, the Authority is in the process of reviewing the Risk Management Framework with a view of adopting and implementing the Enterprise-Wide Risk Management (ERM) approach to risk management in 2019. ERM is a process that enables the Authority to effectively deal with varied types of risks and opportunities thereby increasing stakeholder value and is a departure from a "silo" approach to risk management.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

12.0 **Risk Management (continued)**

12.2 Risk management is a dynamic process that is impacted by changes in market and economic fundamentals which therefore constantly reshape the risk spectrum and our operational environment. In the period under review, the focus was on assessing the integrity of the risk control systems and ensuring that risks and potential control failures are effectively identified, managed and monitored in order to create a climate of discipline and control, which reduces the risk opportunity.

Key activities in 2018 included:

i. Rolling out an anti-fraud awareness campaign to Authority stations countrywide;
ii. Review of policies and process flows;
iii. Development and implementation of the Business Continuity Management Policy; and
iv. Risk management efforts were targeted towards managing and improving cyber, and information security necessitated by the Authority's transition towards a more technologically driven operating platform.

12.3 Overall, the board and the Management continued to demonstrate commitment towards building a strong risk culture and increasing frontline ownership of risk as well as ensuring risk management is at the centre of decision making within the Authority.

NATIONAL PENSION SCHEME AUTHORITY

REPORT OF THE BOARD OF TRUSTEES (CONTINUED)

13.0 **Corporate Social Responsibility**

13.1 As a good corporate citizen, the Authority recognizes the importance of supporting community initiatives aimed at uplifting the living standards of the people in areas of its operations. NAPSA has a well-established Corporate Social Responsibility programme. In 2018, the Authority made significant CSR donations to various social causes in line with its Corporate Social Responsibility Policy. The following were some of the activities undertaken:

Period/Date	Beneficiary	Description	Amount (K)
January 2018	Ministry of Health	Donation of medical supplies and hygiene requisites towards the fight against Cholera	100,000
March 2018	Matero First Level Hospital	Donation of assorted medical equipment onwards Maternal and Child Healthcare	450,000
March 2018	YWCA's Youth and Women Empowerment Programme	Donation of sewing machines and fabric to Kozo Girls Project under YWCA for the production of reusable sanitary towels for redistribution to girls in rural areas	20,000
August 2018	Kasama General Hospital	Donation of medical equipment to Kasama General Hospital	125,000
August 2018	Mansa General Hospital	Donation of medical equipment to Kasama General Hospital	125,000

Signed on behalf of the Trustees on 10th April 2019 by:

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TRUSTEE

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TRUSTEE

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

Part II of the First Schedule of the National Pension Scheme Act, No. 40 of 1996 requires the Trustees to prepare:

- an audited statement of financial position (statement of net assets available for benefits);
- an audited statement of income and expenditure (statement of changes in net assets available for benefits); and
- such other information as the Minister may require.

In preparing the financial statements the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent; and
- follow Generally Accepted Accounting Principles.

The Trustees are responsible for ensuring that the Authority keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The independent external auditors, Messrs Grant Thornton, have audited the annual financial statements and their report is shown on pages 20 to 23.

The Trustees are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Trustees to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

In the opinion of the Trustees the financial statements are drawn up so as to present fairly the financial activities of the Authority for the year ended 31 December 2018 and its financial position as at that date, and have been prepared in accordance with International Financial Reporting Standards and in the manner required by the National Pension Scheme Act, No. 40 of 1996.

Signed on behalf of the Trustees on 10th April 2019 by:

TRUSTEE **TRUSTEE**

Grant Thornton

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Report on the financial statements

Opinion

We have audited the financial statements of National Pension Scheme Authority set out on pages 24 to 71, which comprise the statement of net assets available for benefits as at 31 December 2018, the statement of changes in net assets available for benefits, the statement of movement in accumulated funds and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of National Pension Scheme Authority as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA" code), together with ethical requirements that are relevant to our audit of the financial statements in Zambia. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Partners

Edgar Hamuwele (Managing)
Christopher Mulenga
Wesley Beene
Rodia Musonda
Chilala Banda

Audit • Tax • Advisory

Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Measurement of Financial Assets	
Due to the complex and subjective nature of judgements made in the assumptions by the Directors over the measurement of financial assets this was considered a key audit matter. • The Directors are required to apply the forward-looking approach to recognize expected credit losses based on IFRS 9's impairment requirements. • Further, in assessing the fair value of financial assets, the Directors use a variety of valuation methods based on the classification of assets and make assumptions that are based on market conditions and other relevant valuation data existing at each reporting date.	Our procedures included but were not limited to the following: • Assessing the design and implementation of the impairment model adopted with focus on compliance with the requirements of IFRS9: "Financial Instruments". • Reviewing management's evaluation of possible outcomes and the probability of occurrence. • Checking the reasonableness of the information and ensuring the information was supported with reference to past events, current conditions as well as forecast of the future. • Obtain the analysis prepared by management in calculating the fair value of the assets. • We evaluated management's valuation assumptions and changes in assumptions to ensure they were reasonable and consistent with market information and other relevant valuation data. • Performed audit procedures over the valuation and accounting of investments in financial assets, to ensure that the valuation inputs applied to various valuation techniques were reasonable. Based on our audit procedures the valuation of financial assets appears reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Other information
The Trustees are responsible for the other information. The other information comprises the Trustees' Report as required by the National Pension Scheme Act No. 40 of 1996, which we obtained prior to the date of this auditors' report, and the annual report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trustees for the financial statements
The Trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the National Pension Scheme Act No. 40 of 1996, and for such internal control as the Trustees determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the authority or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

NATIONAL PENSION SCHEME AUTHORITY

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustees regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Trustees with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

National Pension Scheme Act No. 40 of 1996 requires that in carrying out our audit, we consider and report to you on the following matter: We confirm that, in our opinion, the accounting and other records and registers have been properly kept in accordance with the Act.

Chartered Accountants

Christopher Mulenga (AUD/F000178)
Name of Partner signing on behalf of the Firm

Lusaka

Date: 10th April 2019

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2018 K	2017 K
Net assets available at beginning of the year		22,398,721,966	17,036,186,344
Member service operations:			
Contributions from members		3,473,600,842	3,270,016,159
Pension claims and withdrawals	5	(243,817,112)	(247,592,111)
ZNPF claims	5	(312,160,017)	(201,796,855)
Normal retirement pensions	6	(284,500,827)	(243,855,679)
Funeral grants (Napsa)		(19,126,111)	(13,874,555)
		2,613,996,775	2,562,896,959
Investment operations:			
Investment income	7	3,730,781,936	3,357,925,384
Net exchange gains	8	1,156,000	(13,755,625)
Tax expense	9	(227,495,052)	(266,571,052)
Impairment loss on stocks and bonds	13	(1,900,000)	-
Impairment loss on other investments	14	(18,718,413)	-
Impairment loss on loans and advances	15	(531,765,633)	-
Impairment loss on housing inventory	16	(29,878,580)	(26,953,294)
Handling fees		(31,836,394)	(31,990,273)
Bad debt provision	20	(3,920,897)	(26,164,069)
Change in market value of investments	22	(2,179,384,557)	220,917,821
		707,038,410	3,213,408,892
Management expenses:			
Employee benefit expenses	10	(306,515,025)	(258,263,030)
Administration expenses	11	(143,688,141)	(140,642,601)
Depreciation expense	23	(20,229,903)	(15,565,150)
(Loss)/gain on disposal of equipment		(8,301)	700,552
		(470,441,370)	(413,770,229)
Increase in net assets		2,850,593,815	5,362,535,622
Net assets available at end of the year		25,249,315,781	22,398,721,966

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2018 K	2017 K
NET ASSETS		25,249,315,781	22,398,721,966
Represented by:			
ASSETS			
Investments			
Government securities	12	12,609,075,153	10,859,553,377
Other securities	13	5,019,084,901	4,275,657,564
Equity investments	14	1,312,402,110	1,579,362,879
Loans and advances	15	2,911,511,763	2,526,255,589
Housing inventory	16	218,924,145	305,979,093
Investment properties	17	2,764,727,008	2,314,784,595
		24,835,725,080	21,861,593,097
Other assets			
Bank and cash balances	18	229,146,966	139,061,494
Employee receivables	19	3,309,467	6,386,842
Other receivables	20	131,506,290	99,349,618
Consumable stores		1,322,079	1,858,115
Contributions receivable	21	236,917,406	689,891,011
Property and equipment	23	156,495,882	149,017,484
		758,698,090	1,085,564,564
TOTAL ASSETS		25,594,423,170	22,947,157,661
LIABILITIES			
Income tax liabilities	9	(76,057,634)	(136,349,749)
Provisions for claims payable	25	(7,286,600)	(13,037,136)
Other payables and accrued expenses	26	(253,484,982)	(392,062,073)
Deferred liabilities	27	(8,278,173)	(6,986,737)
TOTAL LIABILITIES		(345,107,389)	(548,435,695)
NET ASSETS		25,249,315,781	22,398,721,966

The responsibilities of the Trustees with regard to the preparation of the financial statements are set out on page 19. The financial statements on pages 24 to 71 were approved by the Board of Trustees on 10th April 2019 and were signed on its behalf by:

TRUSTEE **TRUSTEE**

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS FOR THE YEAR ENDED 31 DECEMBER 2018

	Annuity Account K	Members funds K	Accumulated funds K	Total K
Balance at 1 January 2016	26,601	(551,112,901)	13,618,909,871	13,067,823,573
Surplus of income over expenditure for year	-	-	4,090,502,238	4,090,502,238
Benefit claims and refunds	-	(122,139,465)	-	(123,139,465)
Balance at 31 December 2016	26,601	(673,252,366)	17,709,412,119	17,036,186,344
Surplus of income over expenditure for year	-	-	5,362,535,622	5,362,535,622
Balance at 31 December 2017	26,601	(673,252,366)	23,071,947,731	22,398,721,966
Surplus of income over expenditure for year	-	-	2,850,593,815	2,850,593,815
Balance at 31 December 2018	26,601	(673,252,366)	25,922,541,546	25,249,315,781

NATIONAL PENSION SCHEME AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 K	2017 K
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in net assets		2,850,594,733	5,362,535,621
Adjusted for:			
Depreciation expense	23	20,229,903	15,565,150
Income tax expense	9	227,495,052	266,571,052
Dividend income		(53,362,167)	(28,216,686)
Investment income	7	(3,677,419,769)	(3,329,708,698)
Impairment loss on receivables	20	-	26,164,069
Change in fair value of investment property	17	3,857,245	-
Impairment loss on loans and advances		531,765,633	-
Impairment loss on stocks and bonds		1,900,000	-
Impairment loss on other investments		18,718,413	-
Impairment loss on housing inventory		29,878,580	26,953,294
Change in fair of value of Government Securities	12	1,908,566,543	(55,182,942)
Change in fair value of listed securities	14	266,960,769	(165,734,879)
Gain (loss) on disposal of property and equipment		8,304	(700,552)
		2,129,193,239	2,118,245,429
Movement in working capital:			
Increase in Government securities		(3,658,088,319)	(2,271,007,097)
Increase in other securities		(745,327,337)	(777,040,808)
Increase in listed securities		(18,718,414)	(25,942,585)
Increase in loans and advances		(917,021,806)	(1,737,254,494)
Decrease in employee receivables		3,077,375	(1,975,601)
Decrease/(increase) in contribution receivables		452,973,605	(483,171,312)
Decrease in deferred liabilities		1,291,436	3,260,293
Increase in other receivables		(32,156,672)	(56,769,778)
Decrease in inventories		57,712,404	40,219,783
Decrease/(increase) in other payables and accruals		(137,614,771)	90,444,614
Cash used in operations		(4,993,872,499)	(5,219,236,985)
Income tax paid	9	(287,787,167)	(257,869,015)
Net cash utilised in operations		(3,152,466,427)	(3,358,860,571)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property and equipment	23	(33,096,448)	(44,836,069)
Proceeds on disposal of property and equipment		1,521,676	1,766,547
Purchase of investment properties		(449,942,414)	(393,642,836)
Dividends received		46,649,316	28,216,686
Investment income	7	3,677,419,769	3,329,708,698
Net cash generated from investing activities		3,242,551,899	2,921,213,026
Net cash inflows/(outflows) inflows for the year		90,085,472	(437,647,545)
Cash and cash equivalents at beginning of the year		139,061,494	576,709,039
Cash and cash equivalents at end of the year		229,146,966	139,061,494
Comprising:			
Bank and cash balances		229,146,966	139,061,494

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

The National Pension Scheme Authority (the "Authority") was established by the National Pension Scheme Act No. 40 of 1996 (the "Act"). The Authority has the sole management rights and control of the National Pension Scheme. The principal activities of the Authority are to manage the National Pension Scheme and pay pension benefits to members. The Authority became operational on 1 February 2000.

The main objective of the Authority is to implement the policy relating to the National Pension Scheme as stipulated in the Act. The Authority is mandated to manage the Scheme so as to ensure that at all times it is in a state of actuarial soundness, financially sustainable, fair in its benefit distribution and is affordable.

Under the Act and its regulations, the Authority took over the liabilities of members who contributed to a saving Scheme established under the repealed Zambia National Provident Fund Act (the "ZNPF Act"). Members of the former Fund may, at their election, and on the conditions subsisting under the Act and its regulations, convert their accrued rights to the National Pension Scheme to improve their benefits payable under the Scheme. Members who exercise this option shall receive a month's credit for every four months of contributions under the Zambia National Provident Fund.

Notwithstanding the repeal of the ZNPF Act, the Authority, as custodian, continues to pay benefits to members qualifying under the rules in the repealed ZNPF Act.

The address of Authority's registered office and principal place of business are disclosed in the financial statements on page 3.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below:

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Board of Trustees have, at the time of approving the financial statements, a reasonable expectation that the Authority has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Authority takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

2.3 Contribution income

The National Pension Scheme requires eligible employers to remit contributions for each month by the 10th of the following month. Accordingly, contributions receivables are accounted for as received by the Authority from 11th of January 2018 to the 10th of January 2019. At the reporting date, the Authority accrued, as receivable, contributions received from 1 January 2019 to 10 January 2019. The Authority does not recognise contributions receivable from defaulting employers as the amount is not reliably determinable.

The contribution rate is set at 10% of the employee's gross wages subject to a ceiling. The rate is shared equally at 5% between the employer and the employee.

2.4 Dividend income

Dividend revenue from investments is recognised when the Authority's right to receive payment has been established.

2.5 Interest revenue

Interest revenue comprise interest from financial assets. Interest revenue is recognised when it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.6 Inventories

The Authority's inventory comprises largely housing units constructed for sale as well as consumable stores.

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Inventories (continued)

Revenue from the sale of inventory items largely comprises sale of housing units. Housing revenue is recognised as control of a housing unit is passed at the point of handing over a unit to a customer. Factors that indicate that control of a unit passes from the Authority to a buyer include, but not limited to; (a) the Authority has transferred physical possession of the unit (b) the customer has the significant risks and rewards related to ownership of the unit (c) the customer has accepted the unit in its current condition. The Authority satisfies its performance obligation when a customer has fully paid for a unit.

2.7 Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.8 Property and equipment

All property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of property and equipment over their estimated useful lives, on a straight-line basis, at the following annual rates:

Furniture and fittings	8 years
Computer equipment	3 years
Motor vehicles	4-5 years

Capital work in progress is not depreciated.

Management has estimated the residual values of the property and equipment at 31 December 2018 to be negligible and for purpose of the financial statements have been assigned a nil value.

2.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in statement of changes in net assets available for benefits in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment properties

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of changes in net assets available for benefits in the period in which the property is derecognised.

2.10 Impairment of tangible assets

At the end of each reporting period, the Authority reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Authority estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of changes in net assets available for benefits.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of changes in net assets available for benefits.

2.11 Employee retirement benefits

The Authority operates a pension scheme for its employees, comprising both defined benefit and defined contribution schemes. The Authority's defined benefit scheme is actuarially valued at intervals of not more than three years. Funding shortfalls arising in the defined benefit scheme are met through lump sum payments into the Scheme or increased future contributions. Severance liabilities in respect of collective agreements with unionised employees are assessed annually.

The Authority provides for retirement benefits for all employees on non-fixed term contracts as provided for in the Authority's conditions of service.

For contract employees, gratuity is payable at the end of the contract period. Contract periods range from one to three years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Leasing

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.13 Foreign currencies

2.13.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Zambian Kwacha (K).

2.13.2 Transactions and balances

In preparing the financial statements of the Authority, transactions in currencies other than the Authority's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the statement of changes in net assets in the period in which they arise.

2.14 Financial instruments

Financial assets and financial liabilities are recognised when the Authority becomes a party to the contractual provisions of the instrument. At initial recognition, the Authority measures all its financial instruments at fair value plus or minus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability.

The Authority's objective is to hold its financial assets after acquisition within a business model by collecting contractual cashflows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes). The contractual terms of the Authority's most financial assets give rise on specified dates to cashflows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14.1.1 Financial assets and liabilities

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in statement of changes in net assets.

2.14.1.2 Financial assets measured at amortised cost

The Authority classifies a financial asset as subsequently measured at amortised cost when (a) an asset is held within a business model whose objective is to hold the asset in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding on a specified date. The Authority's financial assets classified as measured at amortised cost include those securities (infrastructure bond and medium term notes) whose rates are linked to specified benchmark interest rates. The following other securities are also classified and accounted for at amortised cost (i) placements with counterparties (ii) rental debtors (iii) loan receivables (iv) sundry receivables.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.14.1.3 Financial assets at fair value through profit or loss (FVTPL)

The Authority designates, at initial recognition, some financial assets at fair value through profit or loss. These financial assets mainly comprise Government bonds and Treasury bills. Subsequent to initial recognition, the Authority measures the financial assets at fair value by discounting the expected future cash flows at the effective yield rates prevailing in the market at the measurement date, with changes in fair value recognised in the statement of changes in net assets available for benefits.

2.14.1.4 Financial assets at fair value through other comprehensive income (FVTOCI)

The equity investments that are neither held for trading nor contingent consideration recognised by the acquirer in a business combination. At initial recognition, the instruments are classified as at FVTOCI, with the subsequent changes in fair value recognised in other comprehensive income (OCI). The Authority has not elected to classify its equity investments as at FVTOCI.

The Authority classifies all its equity investments as measured at fair value in the statement of net assets available for benefits, with changes in fair value recognised in profit or loss.

Listed redeemable notes held by the Authority that are traded in an active market are classified as measured at FVTPL and are stated at fair value at the end of each reporting period. The Authority also has investments in unlisted shares that are not traded in an active market but that are also classified as at FVTPL and stated at fair value at the end of each reporting period (unless the Trustees consider that fair value cannot be reliably measured). Changes in the carrying amount of monetary financial assets relating to changes in interest income calculated using the effective interest method and dividends on equity investments are recognised in profit or loss. Other changes in the carrying amount of financial assets classified as at FVTOCI are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends on equity instruments are recognised in profit or loss when the Authority's right to receive the dividends is established.

2.14 Financial instruments

2.14.1 Financial assets

2.14.1.4 Impairment of financial assets

The Authority assesses its financial assets for impairment on the basis of a 'three-stage' model (general model) from initial recognition. The three-stage model for impairment is based on changes in credit quality since initial recognition of the financial assets. These three-stages determine the amount of impairment recognised as expected credit losses (ECL) at each reporting date as well as the amount of interest income recorded in future periods.

The Authority's financial assets, classified as measured at amortised cost or FVTOCI, could be at any of the following stages:

Stage 1 Financial instruments that have not had a significant increase in credit risk since initial recognition or that (at the option of the Authority) have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 Financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date and this option is taken by the Authority) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the entity is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 Financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

In estimating ECLs, the Authority considers a range of possible outcomes. At a minimum, the Authority considers that (a) a credit loss occurs; and (b) no credit loss occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14.1.5 Derecognition of financial assets

The Authority derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Authority recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Authority continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.14.2 Financial liabilities and equity instruments

The Authority's principal financial liabilities are benefits payable and sundry payables. Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and equity instrument. Benefits payable and sundry payables are initially measured at fair value net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

2.14.2.1 Derecognition of financial liabilities

The Authority derecognises financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or they expire.

2.14 Financial instruments

2.14.2 Fair value

Fair value is the amount at which a financial instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, where one exists. The estimated fair values of financial instruments have been determined by the Authority using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate fair values. Accordingly, the estimates are not necessarily indicative of the amounts the Authority could realise in a current market exchange. The carrying amounts of the financial assets and liabilities approximate their fair values.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Trustee's accounting policies, which are described above, the Trustees are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations below, that the Trustees have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.1.1 Impairment losses on loans receivable

In determining whether an impairment loss should be recorded in the statement of changes in net assets, the Authority makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the group, or local economic conditions that correlate with defaults on assets in that group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.1.2 Impairment losses on housing inventory

The fair value of assets is determined by using market rates and in some cases where there is no active market by using valuation techniques. The Authority uses its judgement and makes assumptions that are mainly based on market conditions existing at the reporting date. For housing inventory, the lower of cost and net realisable value was used.

3.1.3 Fair value

The fair value of assets is determined by using market rates and in some cases where there is no active market by using valuation techniques. The Authority uses its judgement and makes assumptions that are mainly based on market conditions existing at the reporting date.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

3.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.2.1 Recoverability of rental debtors

During the year, management reconsidered the recoverability of rental debtors arising from investments properties which is included in its Statement of Net Assets Available for Benefits. At end of each annual reporting period, the Authority makes an estimate of the recoverability of the rental debtors and an allowance for doubtful debts.

3.2.2 Useful lives of property and equipment

The Authority reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Depreciation is calculated on the straight-line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

Furniture and fittings	8 years
Computer equipment	3 years
Motor vehicles	4 to 5 years

Management has estimated the current useful lives to still be appropriate and to apply the same useful lives.

3.2.3 Claims payable

The Authority is involved in various ongoing litigation cases whose ultimate resolution may result in loss to the Authority. The Authority reviews the estimated losses each year and provisions are made at the Trustee's best estimate of the likely outcome of those cases.

3.2.4 Actuarial valuation assumptions

Actuarial assumptions made in determining the present obligation of retirement benefits as disclosed on Note 4.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. ACTUARIAL DEFICIT

In accordance with Section 44 (2) of the National Pension Scheme Act No. 40 of 1996, the Scheme's actuarial obligation is required to be assessed on a tri-annual basis by independent actuaries. The last actuarial valuation was carried out as at 31 December 2017. This was a combined valuation of the Provident Fund and Pension Scheme necessitated by the Authority's decision for the Pension Scheme to take over the liabilities of the Provident Fund. There was need to ascertain the financial impact on the Scheme. The actuarial valuation report is available for examination by the members at the National Pension Scheme Authority Head office.

The following results were obtained from the actuarial valuation:

Pension Scheme	**Long records* K'billion**	**Short records* K'billion**
Value of benefits accrued	41	35
Assets	22	22
Deficit	(18)	(13)

The key assumptions used in the valuation were:	%
Valuation interest rate	13
Long term inflation rate	7.5
Expected rate of return on Scheme assets	Earning +5%
Future salary increases	11
Future pension increases	101
Mortality rate	
Men	19.4
Women	21.8

In accordance with IAS 26 paragraph 28 (b), the Authority has elected to disclose the actuarial deficit and not record it as a liability on the statement of net assets available for benefits. The actuarial deficit is K18 billion based on long records and K13 billion based on short records.

The statement of net assets available for benefits therefore does not reflect the Actuarial present value of the promised retirement benefits.

*** Long records**

Where members have contributed for at least 180 months or more and qualify for a pension.

*** Short records**

Where members contributed for less than 180 months and qualify for a pension under the sliding scale.

Significant actuarial assumptions for the determination of the actuarial deficit or surplus include discount rate and expected salary increase. The sensitivity analyses below have been determined based on reasonable possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. ACTUARIAL DEFICIT (CONTINUED)

Long records

	Earnings +5% K'Billion	Earnings- 0% K'Billion	Earnings -5% K'Billion
Value of scheme liabilities	41	115	5020
Assets	22	22	22
Deficit	(18)	(93)	(634)
Fund status	54.9%	19.5%	3.4%

Short records

	Earnings +5% K'Billion	Earning 0% K'Billion	Earnings -5% K'Billion
Value of scheme liabilities	35.3	91.2	500.1
Assets	22.4	22.4	22.4
Deficit	(13)	(69)	(478)
Fund status	63.4%	24.6%	4.5%

The Scheme is designed to be financed on a scaled premium basis and is therefore not fully financed. However, the Scheme is still a young scheme and benefits expenditure can be expected to increase significantly as additional members (with longer contribution records) draw their benefits. The break-even contribution rate is projected to remain below the current rate of 10% until around 2045 to 2050 depending on the scenario considered either short or long periods.

5. PENSION CLAIMS AND WITHDRAWALS

Pension Scheme	2018 K	2017 K
Retirement Lumpsum	41,179,383	62,646,403
Survivors Lumpsum	46,271,788	29,532,587
Invalidity refund	247,507	252,098
Refund of contributions	-	28,619
	87,698,678	92,459,707
Indexed payments	148,761,496	127,167,070
Interest on refund	7,356,938	27,965,334
	156,118,434	155,132,404
	243,817,112	247,592,111

The indexed payment is meant to help a member's income maintain a certain level of buying power in line with the determined wage inflation. In addition to the indexation, Interest is paid on the Members' contributions using the rate as determined by the Authority.

From 2006, the Authority has been paying pensions to members who qualified under the reduced criteria (sliding scale). In November 2018, the Authority discontinued the application of the sliding scale following the Supreme Court judgement in a matter where a member challenged its validity. As from February 2015, the Scheme has fully insured members who are now qualifying based on a full criteria of 180 months of contributions. Additionally, members who reach the retirement age but have not made 180 contributions are given a lumpsum payment comprising of principal contributions, indexation amount and interest.

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5. PENSION CLAIMS AND WITHDRAWALS

Provident Fund	2018 K	2017 K
Interest on benefits	239,508,856	198,690,607
Retirement	-	2,137,916
Home ownership	1,476,407	400,886
Age	36,046,430	277,398
Survivors	34,687,194	276,573
Disability	441,130	7,174
Savings	-	6,301
	312,160,017	201,796,855

Various lump sum payments are made to Members who contributed to the Zambia National Provident Fund.

	2018 K	2017 K
6. NORMAL RETIREMENT PENSIONS		
Normal retirement pensions	284,500,827	243,855,679

In accordance with the NPS Act No. 40 of 1996 and amendment Act No. 7 of 2015, Members qualify for payment of pension following retirement from employment as follows;

Early retirement (accrued rights)	50 years
Normal retirement (accrued rights)	55 years
Early retirement (new)	55 years
Normal retirement (new)	60 years
Late retirement (new)	65 years

The pension payments made in 2017 relate to Members who have qualified for a pension under the reduced criteria for those aged between 39 and 48 years at inception of the Scheme on 1 February 2000 as well as those that made 180 contributions by their retirement age.

The year 2006 was the first year in which Members qualified to be paid a retirement pension under the sliding scale.

The table below also referred to as the "sliding scale" specifies the number of months of pensionable employment required at each age by the appointed date under this rule for a member to qualify for a pension. This is necessary because there are certain Members who at inception on 1 February 2000, would not be able to qualify for a pension since they were required to make the minimum 180 monthly contributions.

Age at (1 February 2000) inception date	Number of months of pensionable employment required
39	168
40	156
41	144
42	132
43	120
44	108
45	96
46	84
47	72
48	60

NATIONAL PENSION SCHEME AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

6. NORMAL RETIREMENT PENSIONS (CONTINUED)

The intention of this provision is to enable older workers, who could not reasonably be expected to contribute a minimum of 180 months of pensionable employment by retirement age, earn the right to pension benefits.

7. INVESTMENT INCOME

	2018 K	2017 K
Gross interest income on Government Bonds	2,282,046,749	1,542,095,489
Gross interest income on treasury bills	199,658,188	690,471,265
Interest income on fixed term deposits	541,520,478	765,550,895
Society House Development Company Limited (SHDCL)	180,514,181	167,521,142
Infrastructure and Real estate	386,977,334	73,822,713
Net rental income	54,634,061	42,257,290
Interest on cash deposits	20,349,225	32,674,154
Dividend from equities	53,362,167	28,216,687
Interest income on other stocks and bonds	8,917,823	11,984,816
Sundry income	2,801,730	3,330,933
	3,730,781,936	3,357,925,384

8. NET EXCHANGE (LOSSES)/ GAINS

Foreign exchange losses	(1,362,844)	(16,981,284)
Exchange gains	2,518,844	3,225,659
	1,156,000	(13,755,625)

This denotes translation of foreign currency transactions and dollar denominated bank accounts for the Authority.

9. TAXATION

The Authority is exempt from income tax under the terms of the Second Schedule to the Income Tax Act, 1996 (as amended) except as follows: under the terms of the income tax amendment Act 3 of 2003 interest arising from Treasury Bills ("TB") or Government bonds is subject to withholding tax at source at 15% with effect from 1 April 2003; the tax withheld at source is also the final tax. Furthermore, the Authority is required to pay withholding tax on rental receipts at a rate of 10% following the removal of the exemption on withholding tax on rent for statutory bodies.

	2018 K	2017 K
Withholding tax @ 15% on interest on Treasury Bills and Government bonds	222,324,095	266,571,052
Tax on rental receipts	5,170,957	-
	227,495,052	266,571,052
Included under current liabilities		
Payable in respect of previous year	136,349,749	127,647,712
Payable in respect of the current year	227,495,052	266,571,052
	363,844,801	394,218,764
Payments during the year	(287,787,167)	(257,869,015)
Current tax liabilities	76,057,634	136,349,749

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10. EMPLOYEE BENEFIT EXPENSES

	2018 K	2017 K
Salaries and other staff benefit costs	288,511,230	241,839,973
Pension costs	18,003,795	16,423,057
	306,515,025	258,263,030

10.1 The Authority runs an in-house pension scheme for non-fixed contract staff in which it pays its share of contributions. The in-house pension scheme operates independently from the Authority and manages both the defined contribution and defined benefit schemes. The defined benefit scheme was closed to new members in 2007.

10.2 The in-house pension scheme has rules which specify that the Authority has no recourse over the actuarial surplus and accordingly, the surplus is not recorded in the Authority's accounting records.

10.3 The last actuarial valuation was completed for the year ended 31 December 2017 and the report was issued in August 2018 by Quantum Consultants and Actuaries (Zambia) Limited, an independent firm of actuaries, using the Attained Age Method. According to the valuation at that date, the actuarial present value of promised retirement benefits was:

	K
Pension plan assets	205,071,000
Liability to members	(162,833,000)
Surplus	42,238,000

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Valuation method		Attained Age Method
Rate of interest		12% per annum
Rate of pension increase		5% per annum
Rate of revaluation in deferment		5% per annum
Mortality	-Pre- retirement	A49/52 Ultimate table
	-Post retirement	A (55) Males/females ultimate table
Number of members		25

On the basis of the Attained Age Method of valuation, the rate of contribution required to meet the cost of future accrual of benefit in respect of DB Scheme members is estimated at 17.75% of DB Scheme members' total Pensionable Salaries which, net of members' contributions at 10%, gives the Sponsor's required contribution rate of 7.75% of DB Scheme Members' Pensionable Salaries. This is before any adjustments is made for the actuarial surplus disclosed by the actuarial valuation.

The plan typically exposes the Authority to actuarial risks such as interest rate risk, salary risk and mortality risk. Increases or decreases in these actuarial risks may result in an increase or decrease of the actuarial surplus.

The actuarial valuation results of the DB Scheme are sensitive to the actuarial assumptions made. The actuarial assumptions reflect one view of likely future events and there is therefore uncertainty as to how the financial position of the DB Scheme will develop in future. There is no guarantee that the assumptions made will be borne out in practice and the expectation is that the DB Scheme's actual experience will from time to time be better or worse than that assumed.

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11. ADMINISTRATIVE EXPENSES	2018 K	2017 K
Rent	23,584,501	27,195,408
Staff welfare and training	7,548,829	16,641,675
Office and related expenses	10,566,982	16,611,126
Computer expenses	17,271,244	14,631,349
Sports expenses	16,700,230	12,989,624
Advertising and promotion	12,159,458	12,101,845
Travelling expenses	14,766,551	9,508,086
Motor vehicle expenses	10,501,189	5,870,477
Authority expenses	6,241,044	3,765,349
Printing and stationery	3,109,935	3,597,268
Other expenses	7,422,471	2,262,921
Appointments	2,973,113	1,897,325
Building and repairs	536,835	1,779,693
Legal fees	988,241	1,653,259
Audit fees	1,500,000	1,500,000
Employer seminars	970,271	1,354,530
Bank charges	2,135,226	1,263,280
Telephone and postage	1,011,503	1,239,294
Cleaning materials	336,981	1,171,025
Corporate Social Responsibility	900,094	847,150
Professional fees CSO	780,000	660,000
Electricity and water	1,045,705	595,334
Donation and grants	153,216	588,620
Relocation costs	192,894	485,302
Books and magazines	291,628	432,661
	143,688,141	140,642,601

12. GOVERNMENT SECURITIES		
Government bonds	12,165,991,952	7,922,210,236
Treasury bills	443,083,201	2,937,343,141
	12,609,075,153	10,859,553,377

12.1 Government bonds		
At beginning of year	7,922,210,236	4,868,874,829
Purchases	7,882,289,422	5,676,506,201
Bonds matured during the year	(1,930,287,329)	(2,748,431,025)
Change in fair value (note 22)	(1,708,220,377)	125,260,231
At end of year	12,165,991,952	7,922,210,236
Maturity analysis:		
2 to 5 year Government bonds	6,008,916,721	5,807,115,835
7 to 15 year Government bonds	6,157,075,231	2,115,094,401
	12,165,991,952	7,922,210,236

The Authority holds Government bonds with varying interest rates between 8% and 17%. Interest is receivable semi-annually. The bonds mature on diverse dates between February 2019 and December 2033.

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NOTES TO THE FINANCIAL STATEMENTS
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12. GOVERNMENT SECURITIES (CONTINUED)

		2018	2017
		K	K
12.2	**Treasury bills**		
	At beginning of year	2,937,343,141	3,664,488,509
	Purchases	418,434,019	3,261,415,909
	Treasury bills matured during the year	(2,712,347,793)	(3,918,483,988)
	Change in fair value (note 22)	(200,346,166)	(70,077,289)
		443,083,201	2,937,343,141
	Total Government securities	12,609,075,153	10,859,553,377
12.3	**Fair value movement**		
	Government bonds	(1,708,220,377)	125,260,231
	Treasury bills	(200,346,166)	(70,077,289)
		(1,908,566,543)	55,182,942
13	**OTHER SECURITIES**		
	Fixed term deposits	4,972,397,213	4,198,139,672
	Other stocks and bonds	46,687,688	77,517,892
		5,019,084,901	4,275,657,564
13.1	**Fixed term deposits**		
	Zambia National Commercial Bank Plc	651,390,254	827,341,532
	Stanbic Bank Zambia Limited	768,963,259	623,247,806
	Barclays Bank Zambia Plc	630,890,890	522,476,672
	Standard Chartered Bank Zambia Plc	566,506,958	504,284,915
	Indo-Zambia Bank Limited	659,361,511	342,362,476
	Finance Bank Zambia Limited	-	242,453,841
	Citi Bank	-	204,518,552
	Ecobank Limited	275,335,188	202,863,403
	First National Bank Limited	483,546,027	148,308,471
	Access Bank Zambia Limited	258,483,562	142,170,922
	Development Bank of Zambia	89,267,310	106,819,435
	Cavmont Capital Bank Limited	102,810,658	102,991,972
	Investrust Bank Plc	59,964,384	96,554,185
	United Bank of Africa Limited	-	43,754,016
	Intermarket Banking Corporation Limited *	-	43,072,308
	Zambia National Building Society	79,553,048	32,473,111
	First Alliance Bank Limited	27,668,630	23,441,301
	First Capital Bank	-	20,559,041
	Commerce Bank Limited (In Liquidation)	1,365,977	1,365,977
	First Merchant Bank Limited (In liquidation)	847,187	847,187
	Credit Africa Bank Limited (In Liquidation)	793,790	793,790
	Union Bank Limited (In Liquidation)	299,850	299,850
	Union Bank Limited (In Liquidation)	231,762	231,762
	Union Leasing Zambia Limited (In liquidation)	202,835	202,835
	UniFinance Zambia Limited (In liquidation)	119,837	119,837
	United Bank of Zambia Limited (In Liquidation)	80,517	80,517
	Capital Bank Limited (In liquidation)	430	430
	Atlasmara Limited	322,228,199	-
		4,979,912,063	4,233,636,144
	Less: Impairment provision	(7,514,850)	(35,496,472)
		4,972,397,213	4,198,139,672

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13. OTHER SECURITIES (CONTINUED)

* During the year, the Authority converted a fixed term deposit that was held in the defunct Intermarket Banking Corporation Ltd into shares in the newly formed bank to the value of K46.7 million. The new bank, Zambia Industrial Commercial Bank Limited (ZICB), took over the assets and liabilities of the repossessed Intermarket Banking Corporation Ltd. Therefore, the Authority is now a shareholder, holding a stake of 17%.

	2018 K	2017 K
Other stocks and bonds		
Stanbic Bank Zambia Ltd	40,587,688	66,786,873
Madison Financial Services Plc	8,000,000	10,731,019
Meridian BIAO Bank Limited (In liquidation)	11,252	11,252
	48,598,940	77,529,144
Less: Impairment provision	(1,911,252)	(11,252)
	46,687,688	77,517,892
Movement in impairment provision		
At beginning of year	11,252	11,252
Impairment loss recognised in the year	1,900,000	-
At end of year	1,911,252	11,252

Stanbic Bank Zambia Limited

This consists of 2 corporate bonds with maturities of 3 years and 5 years. The corporate bonds are denominated in Kwacha. The bonds bear interest on a floating rate at 182 days Treasury bills+350 basis points margin, 182 days Treasury bills +350 basis points margin and 182 days, Treasury bills +400 basis points margin respectively. As at the year end, the bonds were due to mature in July 2019 and 2021 respectively.

Madison Financial Services Plc

This is a 5 year corporate bond denominated in Kwacha. The bond bears interest on a floating rate at 182 days Treasury Bills + 450 basis points margin respectively. As at the year end, the bonds were due to mature in 2020.

14. EQUITY INVESTMENTS

	2018 K	2017 K
Investments in shares listed on LuSE	1,290,958,841	1,557,919,611
Investment in Society House Development Company	19,630,853	19,630,853
Investment in Levy Business Park Hotel	17,844,345	17,844,344
Zambia Industrial Commercial Bank Limited	46,700,000	-
	1,375,134,039	1,595,394,808
Less Impairment	(62,731,929)	(16,031,929)
	1,312,402,110	1,579,362,879

The impairment of K16,031,929 relates to the value of the 683,956 disputed Lafarge Cement Zambia Plc shares.

Reclassification of impairment of K46,700,000 relating to the fixed term deposit in the repossessed Intermarket Banking Corporation Limited converted into shares in Zambia Industrial Commercial Bank Limited which was partly provided for as at December 2017. The additional impairment loss of K18,718,413 for the year is included in the reclassified impairment provision.

NATIONAL PENSION SCHEME AUTHORITY

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14. EQUITY INVESTMENTS (CONTINUED)

14.1 Investments in shares listed on LuSE

The movements in investment in shares listed during the year were as follows:

	2018 K	2017 K
At beginning of year	1,557,919,611	1,385,872,999
Shares in CEC Africa	-	6,311,733
Change in fair value	(266,960,769)	165,734,879
	1,290,958,842	1,557,919,611
Fair value Movement		
Shares	(266,960,769)	165,734,879

The equity investments comprised shares in the following entities:

NAPSA	**No. of shares**	**Share price**	**2018 Market Value**	**2017 Market Value**
ZCCM - Investments Holdings Plc	24,120,043	28.50	687,421,226	916,561,634
Zambia Sugar Plc	30,788,019	2.70	83,127,651	92,364,056
Standard Chartered Bank Plc	39,873,975	2.63	104,868,554	69,380,717
Zambeef Products Plc	24,797,819	3.00	74,393,457	61,994,548
Lafarge Zambia Plc	9,499,942	4.87	46,264,718	49,209,700
Puma Energy Zambia Plc	49,972,746	1.00	49,972,746	42,476,834
Zambia National Commercial Bank Plc	140,355,063	0.84	117,898,253	40,702,968
Real Estate Investments Zambia Plc	5,691,431	5.99	34,091,672	31,302,870
National Breweries Plc	1,400,000	12.30	17,220,000	18,200,000
Metal Fabricators of Zambia Plc	3,290,567	4.82	15,860,533	16,452,835
British American Tobacco Zambia Plc	6,394,439	2.00	12,788,878	15,666,376
Copperbelt Energy Corporation Plc	15,779,333	1.45	22,880,033	13,728,020
CEC Africa Plc	15,779,333	0.20	3,155,866	-
Prima Re-Insurance Plc	4,281,895	2.80	11,989,306	12,417,495
Pamodzi Hotel Plc	4,164,607	0.62	2,582,056	2,582,056
African Explosives Zambia Plc	293,798	18.21	5,350,061	2,012,516
Capital Holdings Plc	546,916	2.00	1,093,832	820,374
			1,290,958,842	1,385,872,999
Provident Fund				
Commerce Bank Limited (In Liquidation)	2,157,780,000	0.001	2,157,780	2,157,780
Development Bank of Zambia	4,505	10	45,050	45,050
Zambia Consumers Buyers Co-operative (In Liq.)	500,000	0.005	2,500	2,500
Lima Bank Limited (In Liquidation)	500,000	0.001	500	500
Kapiri Glass Products Limited (In Liquidation)	150,000	0.001	150	150
			2,205,980	2,205,980
Less: Impairment provision			(2,205,980)	(2,205,980)
			-	-

The shares above are in the name of the closed Zambia National Provident Fund.

14. EQUITY INVESTMENTS (CONTINUED)

14.2 Investment in Levy Business Park Hotel Limited

The Authority in line with its investments guidelines holds 100% interest in Special Purpose Vehicles (SPVs), namely Society House Development Company and Levy Business Park Hotels Limited. As there is no reliable measure of the fair value of these investment at the reporting date, the investment has been carried at cost. In subsequent reporting periods, the Authority will revalue these investments when a reliable measure will be available.

Equity investments in special purpose vehicles comprised of shares in the following entities:

	2018 K	2017 K
Investment in Society House development Company	19,630,853	19,630,853
Investment in Levy Business Park Hotels	17,844,345	17,844,345
	37,475,198	37,475,198

15. LOANS AND ADVANCES

This asset class mainly relates to loans for real estate and infrastructure that the Authority has advanced.

Receivable from:		
National Road Fund Agency Loan (Note 15.1)	2,054,164,551	1,437,287,517
Society House Development Company Limited (Note 15.2)	1,340,970,633	1,088,968,073
Phantom Exchange (Note 15.3)	2,362,592	2,362,592
Socially targeted Loans (15.4)	14,142,212	-
Other Receivables (Note 15.5)	1,067,087	1,067,087
	3,412,707,075	2,529,685,269
Impairment provision (Note 15.6)	(501,195,312)	(3,429,679)
	2,911,511,763	2,526,255,590

15.1 National Road Fund Agency Loan (NRFA)

Under the newly approved Infrastructure Asset class, the Authority approved a Debt facility of K 2.1 billion for the construction of the North corridor road stretching from Ndola to Solwezi including the construction of the Toll plazas. This was made via a loan to the National Road Fund Agency (NRFA).

The loan is a 10 year loan whose pricing is benchmarked to a yield of ten (10) year Government Bond plus a margin of 1.5 %. Loan recoveries are on a monthly basis. By 31 December 2018, the Authority disbursed a total amount of K 2.1 billion and earned interest on amounts disbursed of K387 million. The interest earned is exempt from Withholding tax. Principal repayments during the period amounted to K62 million.

15.2 Society House Development Company Limited ('SHDCL")

The balance represents advances made, up to the reporting date, to the Authority's fully owned subsidiary, Society House Development Company Limited ("SHDCL").

On 20 May 2011, the Authority entered into a Concession Agreement with Zambia National Building Society ("ZNBS"), for the redevelopment of Society House and Central Arcades, a property in the central business district of Lusaka and which formerly housed ZNBS's head office. The redevelopment would consist of a hotel, shopping mall and office space, and would be fully funded by the Authority. The Concession is for a period of 20 years at the end of which the Authority would be paid 50% of the market value of the redevelopment property. In addition, rental income proceeds arising during the Concession period would be assigned fully to the Authority.

15. LOANS AND ADVANCES (CONTINUED)

15.2 Society House Development Company Limited ('SHDCL") (continued)

A special purpose vehicle, SHDCL, was created in terms of the Concession Agreement to carry out the redevelopment and operate the commissioned property following finalisation of the redevelopment for the period of the Concession. Accordingly, the funding for the redevelopment was to be advanced to SHDCL as a loan and be recovered from that Company. Advances made to date are denominated in Kwacha, are unsecured and interest is recoverable at 15% p.a. Should recovery of the loaned funds not be achievable within the Concession period of 20 years, the Authority is entitled to extend the Concession period until full recovery of the funds is achieved.

Preliminary estimates made by Management indicate the advances made to date will only be recoverable in more than 20 years. The Loan agreement provides for amendment of the concession period at the sole discretion of the Authority should the amounts due to it not have been fully recovered at the end of the concession period. Further, the collateral of the loan is the Project assets.

The Authority made a proposal to Zambia National Building Society to purchase the Project assets (Society house). The ZNBS board has approved the request which was then approved by its Shareholder, Ministry of Finance, as required by Government regulations. Valuation of the assets is now in progress to determine the sale value. Once the valuation report is submitted by the appointed Valuer, negotiations shall resume to ensure that the transaction is concluded. Accordingly, the Trustees believe that the SHDCL loan has been carried at the indicative net realisable value of the project asset.

From the inception of the loan in 2011, the Authority received a single payment of K20,000 for the first time in October 2018 from SHDCL towards the payment of outstanding interest which stood at K348 million at the reporting date. The pattern of payment reflected high default risks associated with the loan.

15.3 Phantom Exchange

The Authority guaranteed a loan in the sum of K3 million granted to Phantom Exchange Limited by Stanbic Bank Limited. Subsequently Phantom defaulted on its loan repayment and the Authority paid Stanbic bank the outstanding amount.

The Authority subsequently sued and obtained judgement against Phantom for the payment of the guaranteed sum plus interest.

15.4 Socially Targeted Loans

Under the socially targeted investment class, the Authority approved a mortgage facility for its staff. At the reporting date, the Authority disbursed a total of K 14 million and earned interest of K 130,598 over a period of three months from inception of the facility in October 2018.

15.5 Other receivables

	2018 K	2017 K
Government	971,145	971,145
Parastatal and private sector	88,227	88,227
Local Authorities	7,715	7,715
	1,067,087	1,067,087

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15. LOANS AND ADVANCES (CONTINUED)

15.6 Impairment provisions

	2018 K	2017 K
The provisions are comprised of the following:		
Phantom Exchange	2,362,592	2,362,592
Other receivables	1,067,087	1,067,087
National Road Fund Agency	34,000,000	-
Society House Development Company Limited	497,765,633	-
Balance at end of the year	535,195,312	3,429,679
Balance at the beginning of the year	3,429,679	1,067,087
Impairment loss recognised in the year	531,765,633	2,362,592
Balance at the end of the year	535,195,312	3,429,679

The SHDCL loan has been written down to the extent of the indicative value of K843,205,000 (based on the preliminary valuation report) deemed recoverable through acquisition of the project asset from Zambia National Building Society (ZNBS).

16 HOUSING INVENTORY

	2018 K	2017 K
Housing inventory:		
Inventory - Northgate Gardens	140,304,696	191,278,214
Inventory - Kalulushi Housing	122,528,048	163,209,704
Inventory - Nyumba Yanga	52,125,007	50,900,042
	314,957,751	405,387,960
Impairment loss	(96,033,606)	(99,408,867)
	218,924,145	305,979,093
Movement in impairment on housing inventory		
Balance at beginning of the year	99,408,867	123,658,286
Impairment derecognised on inventories (sale of houses)	(33,253,841)	(51,202,713)
Impairment recognised on inventories	29,878,580	26,953,294
Balance at end of the year	96,033,606	99,408,867

The Authority has written down the value of housing inventory by K29,878,580 to reflect the net realisable value.

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		2018 K	2017 K
17.	**INVESTMENT PROPERTIES**		
	Balance at beginning of the year	2,314,784,595	1,921,141,759
	Additions	453,799,658	393,642,836
	Changes in fair value	(3,857,245)	-
	Balance at end of the year	2,764,727,008	2,314,784,595

(a) **Fair value measurement of the Authority's investment properties**

The Authority's portfolio of investment properties comprises properties that are under development, parcels of land acquired through debt swap with councils and buildings for letting space as well as housing units. The fair value model is applied to account for investment properties which are revalued on a continuing basis to reflect the carrying amounts that approximate to the market values of similar properties. The Authority contracts professional valuers, holding recognised professional qualifications and are registered members of the Valuation Surveyors Registration Body, to value its investment properties.

During the year, the Authority contracted the services of Sandridge Associate, who are registered valuation surveyors, to value selected investment properties that were under consideration for disposal. These properties included Nyumba Yanga Highrise flats, Ibex Hill (both commercial and residential), Chelston house and school premises at Kalulushi Housing Project.

The Authority invested in the development of the Edgar Chagwa Lungu Business Park (comprising shopping mall, hotel, parkade, offices and convention centre), Modern Record Centre at River Park Project and Office Block in Chinsali. The Authority also undertook refurbishments of former ZNPF buildings to bring them to modern standards. At the reporting date, the properties were at various stages of completion. Accordingly, the Authority has recognised the properties under development and refurbishment at cost. The Authority has determined that the fair values of these properties will be reliably measurable at completion of works.

(b) **Fair value hierarchy**

The fair value measurement for investment property of K2,764,727,008 (31 December 2017: K2,314,784,594) has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The trustees are of the view that the valuation of these properties approximates its fair value.

(c) **Valuation technique and significant unobservable inputs used**

The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties/ capitalisation of net income method, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood.

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17. INVESTMENT PROPERTIES (CONTINUED)

The following table shows the significant unobservable inputs used and sensitivity.

Significant unobservable inputs	Sensitivity
The following are the significant unobservable inputs	The estimated fair value would increase (decrease) if:
• Expected market rental growth (10-15%. Weighted average 12.5%).	• Expected market rental growth were higher (lower);
• Void periods (average 2 months after the end of each cancelled lease).	• Void periods were shorter (longer);
• Occupancy rate (92.5-97.5% weighted average (95%).	• The occupancy rate were higher (lower);
• Rent-free periods (2-month period on new leases).	• Rent-free periods were shorter (longer); or
• Risk-adjusted discount rates (10-25%. weighted average 17.5%).	• The risk-adjusted discount rate were lower (higher).

	2018 K	2017 K
18. BANK AND CASH BALANCES		
Bank balances held at various banks	229,146,966	139,061,494
19. EMPLOYEE RECEIVABLES		
Staff loans and advances	3,332,403	6,410,092
Bad debts provision	(22,936)	(23,250)
	3,309,467	6,386,842
Movement in allowance for doubtful debts		
Balance at the beginning of year	23,250	26,250
Amounts recovered during the year	(314)	(3,000)
Balance at end of the year	22,936	23,250

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		2018 K	2017 K
20.	**OTHER RECEIVABLES**		
	Rental receivables	140,291,214	134,604,354
	VAT recoverable	109,060,246	81,431,294
	Dividend receivables	176,426	6,889,278
	Prepayments	4,983,001	5,688,096
	Sundry receivables	13,780,305	3,600,600
		268,291,192	232,213,622
	Bad debt provision	(136,784,902)	(132,864,004)
		131,506,290	99,349,618
	Movement in allowance for doubtful debts		
	Balance at the beginning of year	132,864,004	107,445,944
	Impairment losses recognised on rent receivables	3,920,897	26,164,069
	Amounts recovered during the year	-	(746,009)
	Balance at end of the year	136,784,902	132,864,004
21.	**CONTRIBUTIONS RECEIVABLE FROM MEMBERS**		
	Member contributions	236,917,406	689,891,011

Contributions receivable from members represents the statutory contributions as required by the National Pension Scheme Act, No. 40 of 1996 which requires the employer and employee to contribute 5% each of the gross earnings into the Scheme, subject to the contribution ceiling.

The Authority's policy requires that contribution income is accounted for on the basis of receipts from 11 January of each year to 10 January of the following year. Contribution income from 1 January to 10 January 2019 amounted to K236,917,406 (2017: K689,891,011).

Other than contributions received between 1 January and 10 January 2019, the Authority received member contributions during the year which were partially receipted by year end owing to partial returns submitted by the contributing employers.

22 CHANGE IN MARKET VALUE FOR INVESTMENTS

	Value at 1st January 2018 K	Purchases at Cost K	Receipts K	Change in Market value K	Value at 31 December 2018 K
Equity	1,557,919,611	-	-	(266,960,769)	1,290,958,842
Government Bonds	7,922,210,236	7,882,289,422	(1,930,287,329)	(1,708,220,377)	12,165,991,952
Treasury bills	2,937,343,141	418,434,019	(2,712,347,793)	(200,346,166)	443,083,201
Other securities	4,275,657,564	5,167,014,444	(4,423,587,107)	-	5,019,084,901
Investment property	2,314,784,595	453,799,658	-	(3,857,245)	2,764,727,008
	19,007,915,147	13,921,537,543	(9,066,222,229)	(2,179,384,557	21,683,845,905

23. PROPERTY AND EQUIPMENT

	Capital Work in Progress K	Motor vehicles K	Office furniture, equipment and fittings K	Total K
Cost				
Balance at 1 January 2017	77,370,345	55,960,063	35,613,056	168,943,463
Additions	15,485,558	11,888,190	17,462,320	44,836,069
Disposals	-	(1,807,526)	(3,895,348)	(5,702,875)
Balance at 31 December 2017	92,855,903	66,040,727	49,180,028	208,076,657
Additions	4,578,730	19,911,338	11,603,374	36,093,443
Disposals	-	(5,693,630)	(6,544,634)	(12,238,264)
Balance at 31 December 2018	97,434,633	80,258,435	54,238,768	231,931,836

23. PROPERTY AND EQUIPMENT (CONTINUED)

	Capital Work in Progress K	Motor Motor vehicles K	Office furniture, equipment and fittings K	Total K
Accumulated depreciation and impairment				
Balance at 1 January 2017	-	25,937,933	22,192,970	48,130,903
Charge for the year	-	9,860,112	5,705,038	15,565,150
Eliminated on disposal	-	(1,158,039)	(3,478,841)	(4,636,880)
Balance at 31 December 2017	-	34,640,006	24,419,167	59,059,173
Charge for year	-	11,777,097	8,452,806	20,229,903
Eliminated on disposal	-	(3,490,587)	(362,534)	(3,853,122)
At 31 December 2018	-	42,926,516	32,509,439	75,435,954
Carrying amount				
At 31 December 2018	97,434,633	37,331,919	20,371,902	156,495,882
At 31 December 2017	92,855,903	31,400,721	24,760,860	149,017,484

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24. CAPITAL COMMITMENTS

As at 31 December 2018 the Authority had capital commitments of K46 million (2017: K295 million).

25. PROVISIONS FOR CLAIMS PAYABLE

Claims payable include ongoing litigation cases whose ultimate resolution will, in the Trustee's view result in loss to the Authority. The amounts accrued are at Trustees' best estimate of the likely outcome of those claims.

	2018 K	2017 K
At the beginning of the year	13,037,136	12,795,188
Charge for the year	3,625,000	241,948
Reversal of provision*	(9,375,536)	-
At the end of the year	7,286,600	13,037,136

* This relates to litigations that had been settled without the Authority incurring legal charges.

26. OTHER PAYABLES AND ACCRUALS

	2018 K	2017 K
Provisions	68,366,690	182,072,071
Other creditors	43,678,480	67,278,867
Accrued expenses	47,548,980	47,051,588
Amounts due to related parties	31,203,042	45,026,459
Deposit on sale of houses	60,609,243	43,536,374
Collateral held on investments*	1,978,546	7,096,709
	253,484,981	392,062,068

*This relates to funds received from collateral securities that matured in the books of the Authority. At the reporting date, the Authority had not transferred the funds to the counterparties.

26.1 Collateral Held by the Authority

As at 31 December 2018, the Authority held collateral worth K1.3 billion in form of Government bonds and Treasury bills in respect of Fixed Term deposits.

27. DEFERRED LIABILITIES

Deferred liabilities comprise provisions for retirement benefits and other employee provisions estimated to become payable after more than one year. The movements on the account during the year were as follows:

	2018 K	2017 K
At beginning of year	6,986,738	3,726,445
Charge for the year	4,058,065	4,857,330
Paid during the year	(2,766,630)	(1,597,037)
At end of year	8,278,173	6,986,738

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28 CONTINGENT LIABILITIES

A contingent liability arising from the Supreme Court judgement that rendered the application of the sliding scale in determining pension eligibility invalid existed at the reporting date. The likelihood of the liability crystallising is very remote. Preliminary computations pointed to the potential recoveries from members who qualified for pension on the basis of sliding scale. Accordingly, the Trustees have not provided for the liability.

29. RELATED PARTY TRANSACTIONS

In the context of the Authority, related party transactions include any transactions made with any of the following persons:

- The Government;
- Members of the Board of Trustees;
- Key management personnel;
- NAPSA Staff Pension Scheme;
- Levy Business Park Hotel Limited;
- Society House Development Company Limited;
- Garden Court Hotel and
- Hilton Garden Hotel

The transactions to be reported are those that affect the Authority in making financial and operating decisions. Examples of such transactions include:

- Finance (loans);
- Procurement and investment contracts;
- Disposal of assets; and
- Rental income.

The Authority undertakes to disclose the nature of related party relationships, types of transactions, and the elements of the transactions necessary for the understanding of the annual financial statements.

The financial impact of transactions with related parties at the end of the year are as follows:

		2018 K	2017 K
(a)	**Amounts due from subsidiaries**		
	Society House Development Company Limited	1,340,970,633	1,088,968,073
	Impairment loss in the year	(497,765,633)	-
	Society House Development Company Limited	843,205,000	1,088,968,073

The loan has been disclosed on Note 15

(b)	**Amounts due to subsidiaries**		
	Levy Business Park Hotel Limited (note 26)	31,203,042	45,026,459

The amount relates to the funds from the subsidiary which the Authority is investing on its behalf. The reduction in the funds relates to the dividends in the sum of K21 million which the hotel paid to the Authority during the year.

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29. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Other receivables

	2018 K	2017 K
National Road Fund Agency (note 15)	2,088,164,551	1,437,287,517
Impairment provision	(34,000,000)	-
	2,054,164,551	1,437,287,517
Recoverable from the Ministry of Labour and Social Security	559,155	559,155
Government loans	187,463	187,463
Parastatal and private sector	88,227	88,227
Interest on Government loans	23,746	23,746
Local Authority loans	2,918	2,918
	861,509	861,509
Less provision	(861,509)	(861,509)
Local Authority loans	-	-

(d) Compensation of Trustees

The remuneration of Board and Committee members during the year was as follows:

	2018 K	2017 K
Allowances and expenses	6,241,044	3,765,349

(e) Compensation key management personnel

The remuneration of key management personnel during the year was as follows:

Salaries and allowances	14,691,872	8,801,952
Gratuity	3,402,199	2,863,292
	18,094,071	11,665,244

30. FAIR VALUE MEASUREMENTS

Fair value measurements of financial instruments

Some of the Authority's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial asset	Fair value hierarchy	Valuation techniques	2018 K	2017 K
Listed securities	Level 1	(i)	1,290,958,841	1,557,919,611
Government bonds	Level 2	(ii)	12,165,991,952	7,922,210,236
Treasury bills	Level 2	(ii)	443,083,201	2,937,343,141
Other stocks and bonds	Level 2	(ii)	46,687,688	77,517,892
Fixed deposits	Level 2	(ii)	4,972,397,213	4,198,139,672

(i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on the Lusaka Securities Exchange.

(ii) Level 2 – Discounted cash flows are estimated based on Bank of Zambia rates observable on Treasury Bills & GRZ Bonds at the end of the reporting period.

(iii) Level 3 – Inputs are unobservable inputs for the asset or liability.

30. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of the Authority's financial assets that are measured at fair value on a recurring basis (continued)

	Fair value hierarchy as at 31 December 2018			
	Level 1 K	Level 2 K	Level 3 K	Total K
Financial assets - 2018				
Government securities	-	12,609,075,153	-	12,609,075,153
Other securities	-	46,687,688	4,972,397,213	5,019,084,901
Equity investments	1,274,926,912	-	37,475,198	1,312,402,110
Total	1,274,926,912	12,655,762,841	5,009,872,411	18,940,562,164

	Fair value hierarchy as at 31 December 2017			
	Level 1 K	Level 2 K	Level 3 K	Total K
Financial assets - 2017				
Government securities	-	10,859,553,377	-	10,859,553,377
Other securities	-	77,517,892	4,198,139,672	4,275,657,564
Equity investments	1,541,887,682	-	37,475,197	1,579,362,879
Total	1,541,887,682	10,937,071,269	4,235,614,869	16,714,573,820

There were no transfers between level 1 and level 2 in 2018 and 2017

At 31 December 2018, the Authority did not have financial liabilities measured at fair value (2017: nil).

30. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements of non- financial instruments

	Fair value hierarchy as at 31 December 2018			
	Level 1 K	Level 2 K	Level 3 K	Total K
Property plant and equipment	-	-	156,495,882	156,495,882
Investment property	-	-	2,764,727,008	2,764,727,008
	-	-	2,921,222,890	2,921,222,890

	Fair value hierarchy as at 31 December 2017			
	Level 1 K	Level 2 K	Level 3 K	Total K
Property plant and equipment	-	-	149,017,484	149,017,484
Investment property	-	-	2,314,784,595	2,314,784,595
Total	-	-	2,463,802,079	2,463,802,079

The reconciliation of the carrying amount of the non-financial assets classified within level 3 as follows:

	K	K	K	K
	2018		2017	
	Carrying Amount K	Fair value K	Carrying amount K	Fair value K
Property plant and equipment	156,495,882	156,495,882	149,017,484	149,017,484
Investment property	2,764,727,008	2,764,727,008	2,314,784,595	2,314,784,595
	2,921,222,890	2,921,222,890	2,463,802,079	2,463,802,079

31 FINANCIAL RISK MANAGEMENT

The Authority's activities expose it to a variety of financial risks, including credit risk and the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management under policies approved by the Board of Trustees. Management identify and evaluate the financial risks.

31.1 Market risk

(i) Fair value interest rate risk

The Authority's interest bearing assets are at fixed rate (fixed term deposits, treasury bills and Government Bonds).

(ii) Equity market prices

The Authority is exposed to equity market price risk arising from changes in market prices of shares and investment securities. Equity market price risk arises from recognised equity investments and investment securities.

At 31 December 2018, if the market prices had strengthened by 10%, increase in net assets for the year would have been K129,095,884 higher (2017: K138,768,541) mainly as a result of equity investments.

At 31 December 2018, if the market prices had weakened by 10%, decrease in net assets for the year would have been K129,095,884 lower (2017: K138,768,541) mainly as a result of equity investments.

31.2 Credit risk

Credit risk arises from cash and cash equivalents, corporate bonds and deposits with banks, as well as other receivables. The Board assesses the credit quality of each investment, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the Board of Trustees.

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

The Authority's maximum exposure to credit risk at 31 December 2018 is as follows:

	2018 K	2017 K
Government securities (note 12)	12,609,075,153	10,859,553,377
Fixed term deposits (note 13)	4,972,397,213	4,198,139,672
Equity investments (note 14)	1,312,402,110	1,579,362,879
Other receivables (note 20)	131,506,290	99,349,618
Cash and cash equivalents (note 18)	229,146,966	139,061,494
Other bonds (note 13)	46,687,688	77,517,892
	19,301,215,420	16,952,984,932

Collateral is held on certain fixed term deposits.

None of the above assets are past due or impaired except for the following amounts in rental debtors (which are due within 30 days of the end of the month in which they are invoiced):

	2018 K	2017 K
Debtors due within 30 days	140,291,214	134,604,354
Provision for bad debts	(136,784,902)	(132,864,004)
	3,506,312	1,740,350

31.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from member contributions and returns from investments.

Management monitors rolling forecasts of the Authority's liquidity reserve on the basis of expected cash flow.

The table below analyses the Authority's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not considered significant.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2018	Less than 1 year K	Between 1 and 2 years K	Total K
Other payables and accrued expenses	253,484,982	-	253,484,982
Deferred liabilities	8,278,173	-	8,278,173
	261,763,155	-	261,763,155
At 31 December 2017			
Other payables and accrued expenses	392,062,073	-	392,062,073
Deferred liabilities	6,986,737	-	6,986,737
	399,048,810	-	399,048,810

32. EVENTS AFTER THE REPORTING DATE

On 5th February 2019, the Bank of Zambia (BOZ) announced the reduction in handling fee from 2% to 1% to apply on Government securities maturing on or after this date. Accordingly, the Authority will recognise income (reversal of excess handling fees for 2018) of K6 million in 2019 on Government securities maturing after 5 February 2019.

33. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

33.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Authority has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

Amendments to IAS 7 Disclosure Initiative

The Authority has applied these amendments in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The amendments have had no impact on the financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses have no impact on the Authority's financial statements.

33. New or revised Standards or Interpretations

33.1 New Standards adopted as at 1 January 2018

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018.

In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

The adoption of IFRS 15 has not affected the Authority revenue recognition.

Contracts with multiple performance obligations

The Authority does not have contracts that comprise a variety of performance obligations. Under IFRS 15, the Authority must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources, and
- it is 'separately identifiable' (i.e. the Authority does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Authority in any year.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Authority has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. The Authority applies the new hedge accounting requirements prospectively and all hedges qualify for being regarded as continuing hedging relationships.

33. New or revised Standards or Interpretations (continued)

33.1 New Standards adopted as at 1 January 2018 (continued)

The adoption of IFRS 9 has impacted the following areas:

- the classification and measurement of the Authority's financial assets. Management holds financial assets to hold and collect the associated cash flows. The bonds previously classified as held-to-maturity (HTM) investments under IAS 39 continue to be accounted for at amortised cost as they meet the held to collect business model and contractual cash flow characteristics test in IFRS 9, refer to Note 13.

- investments in listed equity securities and the equity investments previously classified as available-for-sale (AFS) investments under IAS 39 are now measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest (SPPI). The Authority did not elect to irrevocably designate any of the equity investments at fair value with changes presented in other comprehensive income.

- the impairment of financial assets applying the expected credit loss model. This affects the Authority's trade receivables and investments in debt-type assets measured at amortised cost. For contract assets arising from IFRS 15 and trade receivables, the Authority applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component. Refer to Note 20.

33. New or revised Standards or Interpretations (continued)

33.1 New Standards adopted as at 1 January 2018 (continued)

On the date of initial application, 1 January 2018, the financial instruments of the Authority were reclassified as follows:

	Measurement category		Carrying amount		
	Original IAS 39 category	New IFRS 9 category	Closing balance 31 December 2017 (IAS 39)	Adoption of IFRS 9	Opening balance 1 January 2018 (IFRS 9)
			K	K	K
Government Securities					
Government Bonds	FVTPL	FVTPL	7,922,210,236	-	7,922,210,236
Treasury Bills	FVTPL	FVTPL	2,937,343,141	-	2,937,343,141
			10,859,553,377	-	10,859,553,377
Other Securities					
Fixed Term Deposits	Held to maturity	Amortised cost	4,198,139,671	-	4,198,139,671
Medium Term Notes	Held to maturity	Amortised cost	77,517,893	(3,031,303)	74,486,590
			4,275,657,564	(3,031,303)	4,272,626,261
Equity					
Listed equity securities	Available for sale	FVTPL	1,541,887,682	-	1,541,887,682
Levy Business Park Hotel	Available for sale	FVTPL	17,844,344	-	17,844,3454
Society House Development Company	Available for sale	FVTPL	19,630,853	-	19,630,853
			1,579,362,879	-	1,579,362,880

33. New or revised Standards or Interpretations (continued)

33.1 New Standards adopted as at 1 January 2018 (continued)

	Measurement category		Closing balance	Carrying amount	Opening balance 1 January
	Original IAS 39 category	New IFRS 9 category	31 December 2017 (IAS 39)	Adoption of IFRS 9	2018 (IFRS 9)
			K	K	K
Loans and Advances					
National Road Fund Agency Loan	Loans and receivables	Amortised cost	1,437,287,517	(23,402,263)	1,413,885,254
Society House Development Company	Loans and receivables	Amortised cost	1,088,968,073	(167,521,142)	921,446,931
			2,526,255,589	(190,923,405)	2,335,332,185
Other Receivables					
Staff Loans and Advances	Loans and receivables	Amortised cost	6,386,842	-	6,386,842
Rental receivables	Loans and receivables	Amortised cost	1,740,350	-	1,740,350
VAT recoverable	Loans and receivables	Amortised cost	81,431,294	-	81,431,294
Dividend receivables	Loans and receivables	Amortised cost	6,889,278	-	6,889,278
Prepayments	Loans and receivables	Amortised cost	5,688,096	-	5,688,096
Sundry receivables	Loans and receivables	Amortised cost	3,600,601	-	3,600,601
			105,736,461	-	105,736,461
Bank and cash Equivalent					
Cash and cash equivalents	Loans and receivables	FVTPL	139,061,494	-	139,061,494
Total financial asset balances			**19,485,627,363**	**(193,954,708)**	**19,291,672,658**

33. **New or revised Standards or Interpretations (continued)**

33.1 **New Standards adopted as at 1 January 2018 (continued)**

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

	Measurement category		Carrying amount		
	Original IAS 39 category	New IFRS 9 category	Closing balance 31 December 2017 (IAS 39)	Adoption of IFRS 9	Opening balance 1 January 2018 (IFRS 9)
Financial Liabilities			K	K	K
Provisions for claims payable	Amortised cost	Amortised cost	13,037,136	-	13,037,136
Other payables and accrued expenses	Amortised cost	Amortised cost	392,062,073	-	392,062,073
Deferred liabilities	Amortised cost	Amortised cost	6,986,737	-	6,986,737
Total financial liabilities			**412,085,9426**	**-**	**412,085,946**

33. New or revised Standards or Interpretations (continued)

33.1 New Standards adopted as at 1 January 2018 (continued)

Reconciliation of statement of assets available for benefits balances from IAS 39 to IFRS 9 at 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018	Retained earnings effect
Fair value through profit and loss					
FVTPL in IAS 39	12,438,916,256	-	-	12,438,916,256	-
Derivatives at fair value - hedge accounting applied	-	-	-	-	-
From available for sale	-	-	-	-	-
Total change to fair value through profit or loss	12,438,916,256	-	-	12,438,916,256	-
Available for sale financial assets	-	-	-	-	-
Amortised cost (including held to maturity in IAS 39)	6,907,649,614	-	(193,954,708)	6,713,694,906	(193,954,708)
Total financial asset balances, reclassification and remeasurement at 1 January 2018	19,346,565,870	-	(193,954,708)	19,152,511,162	(193,954,708)

Available for sale financial assets included equity investments. These are now classified at fair value through profit and loss in IFRS 9. The Authority did not use the designation of fair value through other comprehensive income which is available for equity investments in IFRS 9. There is no change in the carrying amount of the equity investments in Levy Business Park Hotel and Society House Development Company. In IAS 39 this was previously carried at cost less impairment. This treatment is no longer permitted under IFRS 9. The Authority did not have any investments in subsidiaries.

33. **New or revised Standards or Interpretations (continued)**

33.2 **Other Standards and amendments that are effective for the first time in 2018 and could be applicable to the Authority are:**

- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)
- Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

33.3 **Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Authority**

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Authority.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Authority's financial statements.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of net assets available for benefits in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Authority has decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Authority:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Authority has reassessed these leases and concluded they will be recognised on the statement of net assets available for benefits as a right-of-use asset

33 **New or revised Standards or Interpretations (continued)**

33.3 **Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Authority (continued)**

IFRS 16 'Leases' (continued)

- believes that the most significant impact will be that the Authority will need to recognise a right of use asset and a lease liability for the office and production buildings currently treated as operating leases. At 31 December 2018 the future minimum lease payments amounted to K4,234,411. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.

- concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position.

The Authority is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the Authority needs to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Authority is currently assessing the impact of applying these other transitional reliefs.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the Authority does not expect any changes for leases where they are acting as a lessor.

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APPENDIX I - STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 K	2017 K
Contributions receivable from Members	3,473,600,842	3,270,016,159
Benefit claims and refunds	(262,943,223)	(261,466,666)
Normal retirement pensions	(284,500,827)	(243,855,679)
ZNPF payments	(312,160,017)	(201,796,855)
	2,613,996,775	2,562,896,959
Investment operations:		
Investment revenue		
- Interest on Government bonds	2,282,046,749	1,542,095,489
- Interest on treasury bills	199,658,188	765,550,895
- Interest on term deposits	541,520,478	690,471,265
- Infrastructure loans	386,977,334	73,822,714
- SHDCL loans	180,514,181	167,521,142
- Rental income	54,634,061	42,257,290
- Dividend income	53,362,167	28,216,686
- Other investments	32,068,778	47,989,903
Handling fees	(31,836,394)	(31,990,273)
Revaluation of equity	(266,960,769)	165,734,879
Loss on revaluation of investment properties	(3,857,245)	-
Loss on revaluation of financial assets	(1,908,566,543)	55,182,942
Impairment on loan and advances	(550,484,046)	-
Impairment on stocks and bonds	(1,900,000)	-
Impairment housing inventory	(29,878,580)	(26,953,294)
Writeback receivables		
Bad and doubtful debts provision	(3,920,897)	(26,164,069)
Interest on loans and advances	-	-
	933,377,462	3,493,735,569
Other operating income:		
- Exchange gains/ (losses)	1,156,000	(13,755,625)
- Gain/ (loss) on disposal of plant and equipment	(8,301)	700,552
	1,147,699	(13,055,073)
Management expenses:		
- Employee benefit expenses	(288,511,230)	(241,839,973)
- Administration expenses	(143,688,141)	(140,642,601)
- Pension cost	(18,003,795)	(16,423,057)
- Depreciation	(20,229,903)	(15,565,150)
	(470,433,069)	(414,470,781)
Surplus of income over expenditure before finance costs and taxation	3,078,088,867	5,629,106,673
Interest expense	-	-
	3,078,088,867	5,629,106,673
Surplus of income over expenditure/ (Excess of expenditure over income) for year before taxation	3,078,088,867	5,629,106,673
Income tax expense	(227,495,052)	(266,571,052)
Surplus of income over expenditure (excess of expenditure over income) after tax	2,850,593,815	5,362,535,622

NATIONAL PENSION SCHEME AUTHORITY

APPENDIX II - STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 31 DECEMBER 2018

ASSETS	**K**	**K**
Bank and cash balances	229,146,966	139,061,494
Government and other securities	18,940,562,164	16,714,573,820
Loans and advances	2,911,511,763	2,526,255,589
Employee receivables	3,309,467	6,386,842
Members' contributions receivables	236,917,406	689,891,011
Other receivables	131,506,290	99,349,618
Inventory	1,322,079	1,858,115
Inventory Levy park		
Inventory investments	218,924,145	305,979,093
Investment properties	2,764,727,008	2,314,784,595
Property, plant and equipment	156,495,882	149,017,484
TOTAL ASSETS	25,594,423,170	22,947,157,661
LIABILITIES		
Other payables and accruals	253,484,982	392,062,073
Claims payable	7,286,600	13,037,136
Deferred liabilities	8,278,173	6,986,737
Current tax liabilities	76,057,634	136,349,749
	345,107,389	548,435,695
ACCUMULATED FUNDS		
Accumulated funds	25,249,315,781	22,398,721,966

